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James P. Scanlan

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The perils of provocative statistics

JAMES P. SCANLAN

FEMALE-HEADED families comprise a larger proportion of the poor than they did the preceding year; the observer concludes that female-headed families are worse off. Blacks consistently make up the overwhelming majority of freshmen disqualified from participation in intercollegiate athletics by Proposition 48, the academic requirement introduced by the National Collegiate Athletic Association to determine which freshman athletes will be eligible; the observer concludes that the NCAA's policy has a severely disproportionate impact on blacks. The ratio of the black infant-mortality rate to the white infant-mortality rate increases; the observer concludes that the health of black infants has declined.

Seemingly sensible conclusions all, and ones the reader can probably remember at least hearing something about in recent years. It would be only slight overstatement, however, to say that the conclusions are altogether wrong. But since many people (and in particular many social commentators) are poorly grounded in rudimentary mathematics, the conventional understanding of the statistics that bear on these and other important issues is often 180 degrees off the mark.

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To see how the conventional understanding is often in error, imagine a country with a population of eight families. Six families, or 75 percent, are poor. Two of those are female-headed families, so in this society 33 percent of poor families are female-headed. Ten years later, poverty is down to 25 percent, or two families. But one female-headed family—one less than before—is still poor. Commentators point to the familiar fact that female-headed families, who once composed 33 percent of the country's poor families, now make up a shocking 50 percent. Although this scenario might appear to be far-fetched, the use of what seems bad news to hide what may really be good news has become common in discussions of social policy.

Consider the poverty debate. Which figure is more meaningful: the proportion of female-headed family members who are poor or the proportion of the poor who are in female-headed families? As the simplified account above illustrates, the first statistic tells us more about the economic plight of female-headed families; but ever since people began speaking of "the feminization of poverty" in the late 1970s, attention has focused on the perceived increase in the latter proportion.

In 1980 the National Advisory Council on Economic Opportunity made a frequently quoted pronouncement: "All other things being equal, if the proportion of the poor who are in female-headed families were to increase at the same rate as it did from 1967 to 1977, they would comprise 100 percent of the poverty population by about the year 2000!" In the ensuing years, the theme was pursued throughout the media. For example, a 1983 column in the *Washington Post* that questioned the Reagan administration's concern for women noted:

> Women have become much more economically vulnerable in the past 30 years than is generally understood.... In 1959 only 14.8 percent of [whites] below the poverty line were [in families] headed by women; in 1980, more than a quarter of them were. The figures for black families are even more staggering: 24.4 percent of [blacks] below the poverty line in 1959 were [in families] headed by women, but 58.6 [percent] of them were by 1980.

The preoccupation with these provocative data, however, has led people to ignore certain critical features of the feminization of poverty. Most significant is the fact that, as a rule, the feminization of poverty varies inversely with the amount of poverty. That is, when poverty is decreasing, female-headed families—being those

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most susceptible to poverty—will comprise a larger proportion of the poor, even as the poverty rate for such families is also declining.

Thus a major reason for the dramatic increase in the feminization of poverty—which actually occurred between 1959 and the mid-1970s—was an unprecedented *reduction* in poverty that included major reductions in the poverty of female-headed families. Between 1959 and 1974, for example, the poverty rate for whites in female-headed families dropped from 40 percent to 28 percent as the overall white poverty rate declined from 18 percent to 9 percent. Though far less poverty-prone than in 1959, members of female-headed families had almost doubled their representation among the white poor (from 15 percent to 27 percent), while their representation among the overall white population had grown by only about one-fourth.

Is the feminization of poverty bad?

Decreases in poverty do tend further to "feminize" the poverty that remains. But this does not mean that female-headed families do not share fairly in the reduction of poverty, as some commentators have asserted and as certain features of the data might suggest. Rather, it is in the nature of "normal" or bell-shaped distributions for a group that is poorer on average to comprise a larger proportion of each poorer segment of the population.

In 1979, for example, members of female-headed families comprised 28 percent of the population that fell below one-and-one-fourth times the poverty line, 32 percent of the population that fell below the poverty line itself, and 35 percent of the population that fell below three-quarters of the poverty line. If everyone who had been above three-quarters of the poverty line had been raised above the line, then the proportion of the poor made up of female-headed family members would have risen.

Conversely, an across-the-board increase in poverty would have caused a drop in the proportion of the poor made up of female-headed families. In fact, after a striking and uninterrupted increase between 1959 and 1974, the proportion of the poor who were in female-headed families declined with the economic stagnation of the late 1970s and the substantial rise in poverty that ensued in the early 1980s—even though such families were becoming a larger proportion of the total population. While decreases in poverty since 1983 have somewhat increased the feminization of

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poverty for both whites and blacks, in 1989 the proportion of the white poor who were in female-headed families—27.5 percent—was still only marginally higher than the 27.2 percent of 1974; for blacks, the 59.4 percent of 1989 remained significantly lower than the 1978 high of 61.8 percent. This history has been ignored in most commentary, however, which has presented differences between 1959 and the mid-1980s as if they reflected a continuing trend.

The underlying phenomenon manifests itself in other mathematical relationships that may also misleadingly suggest a change in the relative well-being of two groups with different income distributions, such as differences between percentage reductions in poverty rates and changes in ratios of poverty rates. But whenever there is an overall decrease in poverty, the poorer group will tend to have a smaller percentage decrease in its poverty rate than other groups, and the ratio of the poverty rate of the poorer group to that of wealthier groups will increase. In the hypothetical reduction in poverty described above, the poverty rate in female-headed families would fall by 26 percent (from 34.4 percent to 25.2 percent), while the poverty rate for all other people would fall by 36 percent (from 9.6 percent to 6.1 percent); and the ratio of the poverty rate of people in female-headed families to that of other people—which was 3.6 to 1—would increase to 4.1 to 1.

Anyone inclined to believe that these figures actually mean that such families are relatively worse off should merely consider the effect of the change on people who are not poor. The hypothetical drop in the poverty rate for people in female-headed families—from 34.4 percent to 25.2 percent—means that the proportion of people in female-headed families who are not poor would rise from 65.6 percent to 74.8 percent, representing an increase of 14 percent. That increase would be several times greater than the 4-percent increase (90.4 percent to 93.9 percent) in the proportion of other people who are not poor. But it would make no sense to say that female-headed families were moving more rapidly out of poverty, just as it would not make sense to say that female-headed families were disproportionately increasing their representation among the shrinking group that remains poor.

In its 1980 report, the National Advisory Council purported to illustrate the "deepening inequality between men and women" by noting that "in 1967, a woman heading a family was about 3.8 times more likely to be poor than a man heading one, [but by]

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1977, after more than a decade of anti-discrimination efforts, she was about 5.7 times more likely to be poor." The direction of that change, however, reflected a benign truth—namely, that the economic circumstances of male and female family heads improved measurably during this period.

The misunderstanding of this matter has also led to unwarranted judgments that the relative status of female-headed families has improved. Census data for 1979, for example, indicate that if poverty had increased such that all people previously below one-and-one-fourth times the poverty line were now in poverty, the poverty rate for female-headed families would have increased by only 23 percent (from 34.4 percent to 42.3 percent), while the poverty rate for other people would have increased 43 percent (from 9.6 percent to 13.7 percent). Thus in 1986 the Democratic staff of the Joint Economic Committee would thoughtlessly conclude that increases in poverty after 1979 had not harmed female-headed families as much as other families.

To be sure, at various times real changes in the relative well-being of female-headed families, which are not simply functions of overall increases or decreases in poverty, do occur. For example, an obvious reason to expect an increasing disparity between the well-being of two-parent families and that of female-headed families is the dramatic rise in the employment of married women during the 1970s. In the wake of this rise, comparisons between female-headed families and two-parent families have increasingly become comparisons of one- and two-earner families.

Of course, the feminization of poverty is also much influenced by the increase in the proportion of the population that is in female-headed families (although contrary to much commentary, this increase should not simply be equated with the worsening relative economic status of such families). The increase has had effects that have varied along lines of race and over time; it accounted for just over a third of the initial uninterrupted feminization of white poverty from 1959 to 1974, but about three-fifths of the black increase. Continuing changes in family composition have counteracted somewhat the "defeminizing" tendency of increases in overall white poverty since 1974. Thus these changes have become the predominating factor in the post-1959 increase in the feminization of both black and white poverty.

None of the numerous commentaries that claim real changes in the relative well-being of female-headed families, however,

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indicates a complete understanding of the underlying functional relationships, much less carries out the complex analysis required to distinguish real changes from apparent ones.

The racial impact of Proposition 48

The misfocus upon the feminization of poverty is by no means the only case in which misunderstandings of properties of normal distributions have led to confusion. Consider the controversy over the NCAA's freshman-eligibility standards. In recent years it has been noted in various places that blacks have accounted for around 90 percent of the entering college freshmen barred from participation in intercollegiate athletics for failing to satisfy the academic requirements of the NCAA's Proposition 48. One year, in fact, the *Atlanta Constitution* reported that at major schools in the South, blacks made up almost 95 percent of the disqualified athletes. Such figures were given considerable attention during debates over the NCAA's January 1989 adoption of Proposition 42, which would have denied scholarships to freshmen failing to meet Proposition 48 standards. The figures were universally taken to mean that the NCAA's policy had a tremendous racial impact, and this belief figured prominently in the NCAA's January 1990 decision to modify Proposition 42 to permit athletes who were ineligible for athletic scholarships to receive need-based scholarships.

Yet the popular understanding was exactly wrong. Since on average whites usually have performed better academically than blacks, academic requirements will tend to affect blacks more than whites. Thus the fact that blacks comprise a disproportionate share of the athletes disqualified by Proposition 48—even allowing for the high black representation among college athletes—does indicate that the NCAA's academic criteria, like other academic criteria, have had some racially disparate effect. But few people seem to realize that the overwhelming black representation among people failing to meet an academic requirement is usually a sign that the disparate effect is *small*, not large.

If whites outperform blacks on average, and if the distributions of grades and test scores for each group are roughly normal, then we would expect the proportion that blacks comprise of people at each performance level to rise as the level drops. Say, for instance, that the average score on a test is 80 for whites and 70 for blacks; since the center of the black distribution is lower than the center of the white distribution, blacks will make up a larger pro-

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portion of the people who score below 70 than they do of those scoring below 80, a larger proportion of those scoring below 60 than of those scoring below 70, and so on. Consequently, when the cutoff score is set very high, black representation among the people who fail will be only slightly higher than black representation among those taking the test. When the cutoff score is set very low, however, and only people at the left-most tail of the overall distribution are disqualified, the proportion that blacks make up of those disqualified will be much greater.

The standard way of measuring the racial impact of a test or other selection criterion is to compare the proportion of blacks who pass with the proportion of whites who pass. The higher the cutoff score, the greater will be the disparity between the proportions of whites and blacks who pass the test. On the other hand, the lower the cutoff score, the closer the black pass rate will be to the white pass rate, even as blacks come to comprise a higher proportion of people who do not pass. This is why judges sometimes require that cutoff scores be lowered on particular tests that harm blacks unfairly.

Suppose, for example, that 800 whites and 200 blacks take an exam and that the white mean score is one standard deviation above the black mean score. (The term "standard deviation" refers to the departure of scores from the mean; when a distribution is normal, roughly 95 percent of the tested population will fall within two standard deviations of the mean.) Assuming that both distributions are normal, setting the cutoff at the white mean score will yield a white pass rate of 50 percent and a black pass rate of 16 percent—or 32 percent of the white rate; 30 percent (168 of 568) of those who fail and 7 percent (32 of 432) of those who pass will be black. But suppose the cutoff score is lowered to two standard deviations below the white mean. With such a cutoff, the white pass rate will be 98 percent and the black pass rate will be 84 percent; blacks will comprise 67 percent (32 of 48) of those who fail and 18 percent (168 of 952) of those who pass.[1]

[1]Because the size of the disparity will vary depending on whether one focuses on pass rates or failure rates (or the presence or absence of a condition), statisticians have sometimes presented disparities in terms of "odds ratios." For each group the odds of passing a test is the group's pass rate divided by its failure rate. In the situation described in the text, when the cutoff is set at the white mean, the white odds of passing would be 1 (the 50-percent white pass rate divided by the 50-percent white failure rate); the black odds would be .19 (the 16-percent black pass rate divided by the 84-percent black failure rate). The ratio of white to black odds of passing would therefore be 5.3 (1/.19), which is the same as the ratio of black to

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The state of Georgia's teacher-competency testing illustrates the same tendencies. Teachers who had repeatedly failed the teacher's exam were terminated after the ninth administration of the test in August 1987. By that time, close to 95 percent of black teachers had passed, while the white pass rate was above 99 percent. The ratio of the black to white pass rates—around 96 percent—would thus not come close to violating the "four-fifths rule" that is usually used by the federal government to trigger inquiry into whether a test actually measures the ability to perform a job. Yet the statistic that received the greatest attention was that blacks made up 75 percent (244 of 327) of the small group of people who had not yet passed the exam.

In the case of Proposition 48 as well as in that of teacher-competency testing, the emphasis on the high proportion of blacks among the people who are disqualified poses a perplexing dilemma for the policymaker. An obvious and easy means of reducing that proportion is to raise the standards. Doing so, however, will increase the programs' racial impacts as they are normally measured and will increase the absolute numbers of black athletes and teachers who will be disqualified. It is doubtful that either end is actually desired by those most concerned about the potential for such programs to limit black opportunity.

Black and white infant-mortality rates

A number of recent works on social policy have stressed the fact that in 1983 the ratio of the black infant-mortality rate to the white infant-mortality rate reached 1.98, its highest point in the forty years for which such data had been kept. The increase in this ratio has generally been taken to mean that the relative health of black Americans has materially worsened and that government support for health care has declined. Thus one pair of authors called it "a shocking indicator of the combined effects of economic recession and service cutbacks."

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white odds of failing. While the use of odds ratios keeps the size of a disparity from turning on whether one focuses on pass rates or failure rates, the size of the odds ratio, like simple ratios of pass or fail rates, is a function of the location of the cutoff and the prevalence of the condition. In the situation described in the text, for example, when the cutoff is set at the 90th percentile for whites the odds ratio will be 11.1; it will drop to 4.9 when the cutoff is set at the 70th percentile of white scores, and it will rise to 9.3 when the cutoff is reduced to the point at which 98 percent of whites pass.

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It is no such thing. As with the feminization of poverty, the ratio of the black to the white infant-mortality rate will almost invariably increase when there is a general decline in infant mortality. That is, the more we reduce the danger of infant mortality, the more infant mortality will be restricted to those most susceptible to it, and each progressively more susceptible group will be even more disproportionately black.

In 1983, when the ratio of black to white infant mortality reached its highest point ever, the infant-mortality rates for both whites and blacks reached their lowest points ever. This fact, however, was ignored in the readiness to believe that the increase in the black-white ratio meant that something bad had happened. Similarly ignored were the facts that both the black and white infant-mortality rates had declined every year for the preceding two decades, and that in nine of the past ten years those declines had been accompanied by an increase in the ratio of black to white infant mortality.

This is not to deny the significance of the substantial, and seemingly persistent, disparity between black and white infant mortality. But again, if we want to understand that disparity and whether it is increasing or diminishing, we must examine the data with a greater appreciation of basic mathematics than has generally been exhibited in the commentary on these issues.

These observations about racial differences in infant mortality, of course, apply as well to efforts to compare black and white mortality rates from other causes. In recent years there have been many such efforts, with commentators typically regarding an increase in the ratio of black to white mortality rates as indicating a decline in the relative health of American blacks, in general as well as with respect to particular diseases. Examination of the underlying data for some of these diseases reveals real cause for concern about the relative health of blacks; in some cases, black rates have actually risen while white rates have declined. With other diseases, however, the increase in ratios is simply what one would expect to accompany a general reduction of mortality from the disease, and it is where a disease has been almost entirely eliminated that the black-white ratio often will be the highest. When society sets about ordering its health-care priorities—and particularly when it orders them in hopes of reducing racial disparities in mortality from various diseases—a thoughtless

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emphasis upon increasing black-white mortality ratios could lead to grave error.

Other racial disparities

The mathematical principle described above applies to numerous other situations in which commonly cited data are misinterpreted. Thus when poverty—including black poverty—declines, blacks usually will comprise a higher proportion of the poor. There also will be an increasing disparity between black and white poverty rates, which can occur even when blacks have actually improved their relative condition. By contrast, when poverty increases, the disparity typically will decrease. In fact, one of the most dramatic changes in the ratio of black to white poverty rates occurred between 1978 and 1983, when the ratio dropped from 3.5 to 3.0 as both rates jumped substantially. The decline in the ratio obviously did not mean that black Americans were better off. Nevertheless, a number of recent works have attempted to appraise black progress in terms of changing disparities between black and white poverty rates, without showing any understanding of how these disparities are functions of the overall amount of poverty.

Similarly, whenever unemployment—including black unemployment—decreases, one would expect to find increasing disparities between black and white unemployment rates. An October 1988 study by the Center on Budget Priorities qualified the good news that black unemployment had reached its lowest point in the decade, by noting that the ratio of black to white unemployment had reached its highest point in the decade. But the conjunction of these two occurrences is to be expected, and to learn whether disparities between the susceptibility of blacks to unemployment and that of whites are actually increasing will require a deeper inquiry.

It has recently been observed that for all the attention to out-of-wedlock births among blacks, the rates of such births are actually increasing more among whites. Yet whenever a condition tends to increase among all groups, it tends to increase at greater rates among the group that is least susceptible to it.

The black two-parent family is far closer in median income to the white two-parent family than the black female-headed family is to the white female-headed family. In 1987, for example, the median black income was 77 percent of the median white income

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for two-parent families, and only 57 percent for female-headed families. Yet the disparity in poverty rates is much greater between black and white two-parent families—where in 1987 the black rate, 12.3 percent, was 2.4 times the white rate of 5.2 percent—than between black and white female-headed families—where the black rate (51.8 percent) was only 1.9 times the white rate (26.7 percent). This is an almost inevitable consequence of the fact that poverty is far less prevalent among two-parent families than among female-headed families.

Similarly, the disparity between the median incomes of two-parent families and female-headed families is much greater for blacks than for whites. But because whites are generally less likely to be poor than blacks, the disparity between the poverty rates for two-parent families and those for female-headed families is much greater among whites than among blacks.

Finally, when minorities who are hired by an employer or admitted to an educational institution are found on average to be poorer performers than whites, it is sometimes perceived as evidence of affirmative action. The employer or institution is believed to have lowered its standards for minorities. But if the minorities are on average less qualified among the applicants, they will be less qualified among those hired or admitted when the selection procedures are fair—and usually even when the procedures are biased against them—simply because they will be disproportionately represented among those who were hired or selected from among the less qualified applicants.[2]

On the other hand, that blacks tend on average to be superior performers in professional sports—for example, they have substantially higher batting averages at every position in major-league baseball—has been interpreted by a number of commentators as a sign that blacks are discriminated against even in professional sports. Yet if blacks are on average better athletes among people seeking to become professional athletes (as may be suggested by their high representation in professional sports), on average they will be better athletes among people who become professional athletes. So blacks may be discriminated against in professional athletics, but the data cited to prove it are just as consistent with fair treatment.

[2]For an illustration of this point, see Table IV in my article "Illusions of Job Segregation," *The Public Interest*, no. 92 (Fall 1988), p. 60.

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Flawed models, false conclusions

The same features at work in the situations described above also frequently lead various studies to find evidence of discriminatory treatment that may not really exist; imprecision in the model is often to blame for this. Consider, for example, studies designed to identify discrimination against blacks in lending practices. Even studies that attempt to adjust for socioeconomic status by grouping the people studied into several levels will often fail to adjust adequately, because within each level blacks will be disproportionately represented in the lower reaches. To the extent that socioeconomic status accounts for some part of observed differences in treatment, the failure to account fully for socioeconomic status will lead to a false perception of discriminatory treatment. And even studies that adjust for precise dollar amounts of income would need to take into account the fact that among whites and blacks earning a particular amount, whites will be disproportionately represented among people whose incomes are growing at a faster rate.

Similarly, groups that on average have more experience and education will also tend to have superior experience and education. Consequently, even efforts to study differences between groups that adjust for differences in amounts of education or experience will tend to find discriminatory treatment, so long as the adjustment ignores this qualitative difference.

This is not to say that such studies are invariably flawed. One must determine whether an inadequately specified variable is important enough to make a difference; one cannot do so, of course, without being aware of the bias imputed by a lack of specificity.

Nor do I mean to deny the immense value of statistics. They are indispensable in a complex society. At the same time, commentators often rely on data that they do not fully understand. Unfortunately, there are no invariably reliable rules of thumb for distinguishing meaningful statistics from misleading ones. Knowledge of the principles explored above is useful; and understanding the basic point that disparities tend to increase as conditions improve is essential. But this hardly prepares one for the range of similarly flawed uses of statistics that abound even in scholarly journals. Perhaps the most valuable thing to cultivate is the simple recognition that even well-intentioned commentators may be misled by the superficial or the provocative. Their conclusions may not only be imprecise—sometimes they will simply be wrong.

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The inheritance revolution

JOHN H. LANGBEIN

IF YOU HAVE frequented the camping grounds or motel strips of Middle America lately, you may have noticed graying couples driving station wagons and recreational vehicles festooned with bumper stickers that read: "We're Spending Our Children's Inheritance."

If the legend on these bumper stickers, which came on the market in the late 1980s, accurately reflected parental sentiment, it would imply a shocking reversal of attitude toward the pervasive and immemorial institution of inheritance. As far as we know, parents have always felt a strong obligation to transmit much of their wealth to their children.

In truth, the people who display this slogan on their cars are not doing what they say they're doing. The bumper sticker bespeaks jocularity, not resentment or hostility toward inheritance. But it is a sign of the times, alerting us that ordinary people have come to sense that the patterns of inheritance are in flux. If the bumper sticker were rewritten to articulate the true state of mind of the

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This article originated as the Trachtman Lecture to the American College of Trust and Estate Counsel.

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cars' owners, it would be unwieldy and unamusing. The text would read: "We Have Already Transferred to Our Children During Our Lifetimes Most of What Would Formerly Have Been Their Inheritance from Us upon Our Deaths, and We Are Presently Enjoying Spending Some of What's Left."

The changes in the practice of wealth transfer reflect changes in wealth itself that have occurred over the last century or so as a result of the vast technological forces that have transformed the production of goods and services. Whereas wealth used to take mainly tangible forms (real estate, plant and equipment, inventory, and personal artifacts), wealth in today's advanced technological societies is mostly intangible. The new wealth is of two main sorts. One category is *financial assets*—stocks, bonds, bank deposits, mutual-fund shares, insurance contracts, and the like. The other great form of modern wealth is what economists call *human capital*—the skills and knowledge that facilitate life in advanced technological societies.

The great changes in the nature of wealth, which are well known to economists and sociologists, have dramatically altered the timing and the character of inheritance. While wealth transmission from parents to children once tended to center upon major items of patrimony such as the family farm or the family firm, wealth for today's broad middle class is mostly transmitted as a radically different kind of asset: investment in human capital. Consequently, wealth transmission between generations now occurs while the children are growing up and the parents are still alive, rather than upon the death of the parents.

The awesome demographic transformation of modern life has also affected the transmission of wealth. Those same parents who now make their main wealth transfers to their children during their own lives are also living much longer. The need to provide for parents in their lengthy old age has put a huge new claim on family wealth, a claim that necessarily reduces the residuum that would otherwise have passed to survivors. Furthermore, a new institution has arisen to help channel the process of saving and dissaving for old age: the private pension fund. The distinctive attribute of pension wealth is that it tends to be distributed in the form of annuity payments. When wealth is annuitized, virtually nothing is left for transfer on death.

The patterns of wealth transmission that I describe in this essay are found among the middle and upper-middle classes. These

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trends have had much less influence at the extremes of society—among the very rich and among the poor. The modes of gratuitous transfer have never been very relevant to the poor or near-poor. If you lack appreciable wealth, you will face many problems in life, but one you will not need to agonize over is how to transmit the wealth that you do not have. And at the other end of the spectrum, among the very rich, the new trends have also been insignificant, but for quite different reasons that are discussed below.

Family wealth in the past

Often we can best approach the new by understanding the old. In antebellum America the family was still an important unit of production. The rural economy then was based on small farms, while in the towns and cities the predominant economic entities were small producers and retailers.

Farmers, artisans, and shopkeepers had in common the tradition that the entire family worked in the enterprise. In those circumstances, contemporaries had little occasion to distinguish between what we think of as earned income (income from one's labor) and investment income (the return on property). The two income streams were merged in a single endeavor. Both parents and children looked to the farm or the firm for their livelihood, with scant attention to idle accounting questions about how to apportion their income between labor and capital.

In emphasizing that the returns on labor and capital were composite, I do not mean to slight the great importance of property. Ownership of a farm or a firm rescued you from a mean life of stoop labor in someone else's field, mill, or household. In former times, it was vastly harder to live by your skills alone, without patrimony. Accordingly, people of means aspired to nothing so much as to leave their children similarly advantaged. You hoped to transmit the farm or the firm, and thus, in the quaint phrase of the time, to make for your children "a provision in life."

There was little or no formal education. In a low-tech age, the transmission of skills, like so much else, could still occur within the family. You learned your trade alongside your parents and your relations, in the fields, in the firm, or at the hearth. The family was not only the primary unit of production, but also the primary educational entity. A few crafts and learned professions required external education; but even in those pursuits education was frequently dispensed to apprentices in households.

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Transfer of ownership rights in these multigenerational enterprises occurred upon the death of the parents, typically of the father. Various arrangements were made for the widow, but the tendency was to limit her to a smaller holding, with the bulk of the property passing immediately to the next generation. This assured continuity of the enterprise in the hands of the child or children who had already been employed in the enterprise. Wealth was transmitted upon death, but the shorter life expectancies meant that death generally occurred earlier than it does today. Thus the successors were typically young adults, whereas people now are usually middle-aged by the time their parents die.

To complete this little snapshot of important traits of wealth transmission in the nineteenth century, we should note that daughters had fewer expectations than sons. It is still common to come across a long-established family firm in which the father associated the sons in the firm's name—for example, Steinway & Sons. We do not see firms called Steinway & Daughters. Although there were many exceptions, transmission of the family farm or the family firm favored males.

Contemporary family-property relations

In the late twentieth century, the family has ceased to be an important unit of production. To be sure, you can still find a few cottage industries in America, there is a fair amount of mom-and-pop retailing, and many smaller firms are still owned by families. In the main, however, the production of goods and services has forever left the home. The technological sophistication and marketing complexity of modern modes of production and distribution impose enormous capital requirements. Village blacksmiths cannot manufacture automobiles, airplanes, and oil rigs. The village entrepreneur can still sell a screwdriver or make a hamburger, but customers mostly prefer to patronize K-Mart or McDonald's. Thus the characteristic unit of production in our age is corporate rather than domestic.

These trends extend to farming, which has become ever more technology-driven and capital intensive in this era of corporate agriculture. Family farms still exist in America, but many of them are hobby farms, secondary enterprises conducted by people whose main livelihood derives from employment outside the home. As farms have grown in size and productivity, an astonishing agricultural depopulation has occurred. By 1970, in what used to be a

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nation of farmers, the agricultural population was 5 percent, down from 44 percent in 1880. These few farmers not only feed the rest of us, they run our largest export industry.

Thus, in general, we neither farm nor manufacture at home. The family's function is more limited now. In economic terms, the family remains a unit of consumption but is no longer a unit of production. Enterprise is organized outside the home, and workers now leave their homes for employment. Workers contribute their labor to their employment, but they no longer supply the plant and equipment as they did in the bygone day of the family enterprise.

The ever-larger capital requirements of technologically advanced enterprises require modes of financing that exceed the capabilities of the family. The corporation, as well as specialized financial institutions, arose to facilitate the pooling and allocation of capital. Corporations, banks, insurance companies, and other financial intermediaries displaced the family from its former role as the primary unit of capital accumulation. In turn, these intermediaries created new forms of wealth in financial assets—various securities, depository claims, and other contract rights.

These instruments of financial intermediation now absorb the savings that had previously been devoted to family enterprises. Because family wealth is no longer retained but rather invested externally, it now takes the form of claims on outside enterprises. This new property, paper property, has become the characteristic form of transmissible wealth. As Roscoe Pound said in an arresting dictum, "Wealth in a commercial age is made up largely of promises."

Educational expenditure

The same underlying technological and economic forces that caused family-based enterprises to dissolve have also stripped the family of much of its role as an educational institution. It is a truism that a technological age requires a technologically proficient work force. The awesome expansion of human knowledge over the past century has made the family obsolete as a repository and transfer agent for this huge range of knowledge. The educational demands of modern economic life have become immense, and so has the cost of providing children with this educational endowment. My central thesis is that paying for this education has become the characteristic mode of intergenerational wealth transmission for ordinary American families.

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Statistics can give us a sense of the underlying magnitude of this trend. Total expenditures for formal education in the United States in 1840 have been calculated at $9.2 million. This sum increased over the nineteenth century, a period of relatively low inflation, to stand at $289.6 million in 1900. By 1959 the figure had reached $23.8 billion, which amounted to 4.8 percent of the gross national product. Thirty years later, in the 1989-1990 academic year, the total expenditure on formal education stood at $330.5 billion—about 7 percent of the gross national product. Three-fifths of this money went to fund primary and secondary education, the remainder to higher education.

Valuable though these official educational statistics are, they conceal subtle issues of definition and measurement. Many sins pass under the label of education. Not every course in basket weaving deserves to be counted as an investment in human capital. On the other hand, much of our financial investment in our children takes forms that, somewhat arbitrarily, fall outside the category of formal education. If you take your children to a nature preserve or on a tour of French cathedrals, that's private recreation; when some educational institution takes them square dancing, that's education. Indeed, as Walter Blum and Harry Kalven pointed out some thirty years ago in their celebrated book *The Uneasy Case for Progressive Taxation*, the most important inheritance of all—the thing that decisively advantages middle-class children—is the cultural bequest from their parents. The parental transfer of language, of values, and of psychological well-being sets the stage for all the formal learning and achievements of later years. None of that gets captured in the statistics on education. Nevertheless, once due allowance is made for the shortcomings of what the statisticians deem to be education, the official numbers measuring expenditures for education are so enormous that they bespeak an enterprise of daunting importance.

In 1870, 2 percent of the population had graduated from high school; by 1970 the figure approached 76 percent. In 1870 institutions of higher learning in the United States conferred a total of 9,372 degrees, of which 9,371 were bachelors' degrees and exactly one was a doctorate. A century later the total number of degrees conferred had increased more than a hundred fold, to 1,065,000, of which almost thirty thousand were Ph.D. or equivalent degrees. College enrollments as a percentage of the college-age population reached 12.5 percent in 1946, 29.6 percent in 1970, and 31.3 per-

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cent in 1985. As recently as 1940, only 4.6 percent of the American population had completed four or more years of university study; by 1987, 19.9 percent had done so.

Economists who have thought about our gigantic education industry generally agree that expenditures on education ought not to be viewed as simple consumption expenses, like money spent on corn flakes or handkerchiefs. Rather, education is an investment in human capital, closely akin to conventional investment in plant, equipment, and inventory. Education produces skills, and modern productive processes are skill-driven. Whether we speak of new fields like aeronautics or ancient ones like health care, the story is the same. While plant and equipment become increasingly sophisticated—incorporating robotics, computers, CAT scanners, and so on—the skills of the work force become still more decisive. Human capital thus substitutes for nonhuman capital, as new knowledge not only displaces old knowledge, but also displaces plant and equipment. The advance in medical science that made polio a preventable disease and consigned the iron-lung industry to the scrap heap exemplifies this process.

Human capital has steadily increased over the twentieth century as a fraction of total capital and as a fraction of the gross national product. The percentage of GNP spent on education and job training grew by 80 percent from 1929 to 1969, in which year it stood at 15.4 percent of GNP. Calculations published in 1985 by George E. Johnson of the University of Michigan indicate that "education costs society approximately as much as investment in nonresidential physical capital."

The parental burden

There is no mystery about who has been paying the bill for this vast expansion of education. Even childless people pay substantial sums in taxes to support the public educational establishment. But for present purposes, I want to focus on propertied families who are raising children.

My point is simple. In striking contrast to the patterns of the last century and before, the business of educating children has become the main occasion for intergenerational wealth transfer today. Of old, parents were mainly concerned with transmitting the "provision in life" that rescued children from the harsh fate of being mere laborers. In today's economic order, it is education

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more than property, new human capital rather than old physical capital, that similarly advantages a child.

We know that income levels correlate powerfully with education. In 1987 the median annual income of full-time male workers aged twenty-five and over who had completed some years of high school but had not graduated was $21,269; for those who had completed four years of college the figure was $35,244; and for those with more than four years of college, the figure was $41,691. The comparable earnings figures for female workers were lower, but differences in educational attainment among women produced comparable disparities in favor of the well-educated.

Family wealth and its corollary, family income, are crucial determinants of access to education. Robert B. Mare, a sociologist of education, summed up the data as of 1981 in the following way: "Persons whose parents have more schooling, higher income and better jobs; whose families are smaller; and who were raised in urban areas typically obtain more schooling than persons from less advantaged backgrounds."

Parental efforts to secure the benefits of education for their children often begin in early youth. There has been a huge increase in formal preschool education in recent decades. In the years of their children's primary and secondary education, propertied parents either seek housing in suitable school districts or send their children to private schools. Indeed, the distinction between private and public schools is less meaningful than it first appears. Many of the best suburban public schools are in truth better understood as private schools with tax-deductible tuition, which is paid in the form of relatively high real-estate taxes that are deductible against income taxes. Parents tend to move into these school districts when they have school-age children, and to move out when they no longer need the schools.

And then there is college. The federal government's *Digest of Education Statistics 1989* reports that the average annual charge for tuition, room, and board for undergraduates in the 1987-1988 academic year was $3,960 at public colleges and $10,390 at private colleges. Because these numbers are averages, which lump low-cost local institutions with elite schools, they understate the bills that parents face when they send children to major universities. At the premier private universities, bills for tuition, room, and board now exceed $20,000 a year. In many graduate and professional schools, the price tags are higher still. In 1990-1991, tuition and

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fees at Yale Law School will cost $16,200. Annual expenses for an unmarried law student are projected to approach $25,000, which puts the effective cost of the three-year Yale law degree at about $75,000. Because this bill for graduate school falls due after four years of college, costs for a student's higher education can easily reach six figures.

The popular press has paid much attention to the saga of ever-rising university costs. A May 1987 *Newsweek* story supplied figures on the annual cost of undergraduate education at Johns Hopkins. The $15,410 that Hopkins charged in l987 for tuition, room, and board constituted 31 percent of a family income of $50,000 per year. By contrast, the $2,000 that Hopkins charged in 1960 represented only 15 percent of the inflation-adjusted equivalent family income for 1960, which was $13,500.

Now it is quite obvious that very few families can afford to pay 31 percent of family income, or anything near it, on what we would call—in an accounting sense—a current basis. That is especially true when the family has more than one child in the educational mill at the same time. For most families, therefore, these education expenses represent capital transfers in a quite literal sense: either the money comes from savings (that is, from the family's capital) or debt is assumed (meaning that the money is borrowed against the family's future capital).

The same *Newsweek* article that discussed the costs of a Hopkins education also recounted the saga of a parent named C.Y. Lu, who had the financial misfortune to have one son attending Princeton while the other was enrolled at Harvard Law School. Mr. Lu was reported to have sold off investments, taken out educational loans, and refinanced his home mortgage by $60,000, in order to raise a total of $140,000. Mr. Lu was quoted as saying, "I've told my sons, your education is going to be your inheritance."

Mr. Lu's words encapsulate my thesis. Education is displacing inheritance, lifetime transfers are displacing succession on death. Back in the nineteenth century or earlier, Mr. Lu would have husbanded his wealth and left it to his sons at his death. Today, in mid-life, he cashes out and goes into debt in order to fork over his savings to Princeton and Harvard.

Nobody forces Mr. Lu to do this. He could have told his two sons, "Boys, I'll make you a deal. I'll buy you out of those admission letters from Princeton and Harvard. Stay away from those cauldrons of red ink, and content yourselves with attending

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the community college down the road—or better yet, go right to work in an accessible career like pumping gas at the corner filling station. Then, I'll have $140,000 more in family wealth that I can invest through Merrill Lynch. It will compound and be available for you on my death." Well, we all know that virtually no parent behaves that way. Parents understand full well what economists have been demonstrating with their studies of human capital. Those degrees from Princeton and Harvard are superior investments when compared to any class of financial assets, by virtue of a very conventional test: the degrees produce a far larger income stream.

Had Mr. Lu's children been daughters, his financial predicament would not have improved. One of the great American social achievements was to extend the opportunity for formal education to women. That trend was epitomized in the nineteenth century with the proliferation of women's colleges. Today, more women than men attend college. Accordingly, the change in the patterns of family wealth transmission away from conventional inheritance and toward parental investment in children's education may ultimately come to be understood as having been even more consequential for women than for men.

From the proposition that the main parental wealth transfer to children now takes place *inter vivos*, there follows a corollary: children of propertied parents are much less likely to expect an inheritance. Whereas children once expected the transfer of the farm or the firm, today's children expect help with educational expenses. These children sometimes receive help with initial housing and career expenses, but they seldom depend upon parental wealth transfer at death. Lengthened life expectancies mean that the life spans of parents overlap the life spans of their adult children for much longer than they used to. Parents now live to see their children reaching peak earnings potential, and those earnings often exceed what the parents were able to earn. People are typically middle-aged when their remaining parent dies, and middle-aged people are far less likely to be financially needy. It is still the common practice within middle- and upper-middle-class families for parents to leave to their children (or grandchildren) most or all of any property that remains when the parents die, but there is no longer a widespread sense of parental responsibility to abstain from consumption in order to transmit an inheritance. Children no

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longer expect an inheritance, parents no longer feel the obligation to leave one, and thus the whimsical bumper sticker.

To be sure, conventional inheritance on death abides, especially among persons of great means. The changes in the timing and character of family wealth transmission that I have discussed mostly affect the middle and upper-middle classes. School bills make little dent in large fortunes. There are intrinsic limits to how much education an individual can absorb, and those limits are reached long before the holders of great wealth would notice. Hence the educational expenditures that loom so large for moderately propertied families do not significantly reduce the wealth that families of great fortune can transfer.

And even within the middle and upper-middle classes, there is no reason to think that the cycle of saving and dissaving for education must so bankrupt parents that they will have no other property to transmit at death. Even though investment in education has become the major wealth transfer for ordinary families, it is not the exclusive means of transfer.

Consequences for the ethos of inheritance

Although this twentieth-century inheritance revolution mainly affects the middle and upper-middle classes, there is a deeper sense in which the forces that have transformed the patterns of wealth transmission for these classes have also touched the holders of great wealth. The new pattern has become a powerful social norm that has begun to chip away at the ethos of older notions of inheritance.

Here, too, is a phenomenon that has attracted journalistic attention. In September 1986 *Fortune* gathered some anecdotal evidence about the thinking of extremely wealthy people who planned to leave their children only token inheritances. The story led off with the views of Warren Buffett, chairman of the Berkshire Hathaway holding company, whose personal wealth was then estimated at one and a half billion dollars. Mr. Buffett explained why he plans to leave each of his three children only a few hundred thousand dollars; having put the children through college, he said that he expects them "to carve out their own place in this world...." He thought that it would be "harmful" and "antisocial" to set up his children with "a lifetime supply of food stamps just because they came out of the right womb."

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Mr. Buffett's millions will go to charity. So will the $50-million fortune of New York entrepreneur Eugene Lang, who sent his three children to college, gave each "a nominal sum" after college, and plans to disinherit them. He explained to the *Fortune* reporter: "To me, inheritance dilutes the motivation that most young people have to fulfill the best that is in them. I want to give my kids the tremendous satisfaction of making it on their own."

People like Messrs. Buffett and Lang are quite exceptional. Most people of great means prefer to leave most of their wealth to their descendants, hoping to educate the recipients to use the wealth responsibly. The hostility toward conventional succession expressed by Messrs. Buffett and Lang is noteworthy not because such hostility is prevalent, but simply because it would have been inconceivable a century or more ago. Messrs. Buffett and Lang are voicing an attitude toward conventional wealth transmission that is not only quite exceptional, but also historically recent and very American. Behind it, I think, is the assumption that wealth is largely fungible, that the family's patrimony entails no particular sentimental attachment or social significance. That is why Mr. Buffett could liken his fortune to a pile of food stamps, and why Mr. Lang could hope that his children would experience the satisfaction of "making it on their own." By "it," he means something *like* it, but not the identical property. This notion that wealth is fungible applies more to the new forms of wealth than the old, and fits American circumstances better than English or European ones. You're more likely to be sentimental about your ancestors' manor house than about the family's portfolio of marketable securities. It's hard to imagine the twelfth Earl of Carlisle arranging for the dissipation of the family seat in order to stimulate the thirteenth Earl to the challenge of reacquiring it.

Americans increasingly expect personal wealth to take the form of earned income; that is, we expect it to be a return on human capital. Messrs. Buffett and Lang have taken that expectation to its limit. In their eyes, conventional wealth transfer has lost its legitimacy. The esteem once associated with holding property now applies only to earned income—to wealth that embodies the fruits of human capital.

European comparisons

The substitution of human capital for older forms of property is less evident in the patterns of family wealth transmission in

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Europe than in the United States, even though the underlying technological and economic forces have been broadly comparable on both sides of the Atlantic. The main explanation surely has to do with differences in financing education. In general, Europeans have socialized education and educational finance much more than we.

England represents something of a middle case, because of the enormous importance of private, pre-university schooling in the English system. Propertied English families are just as prepared to sacrifice for Eton or Winchester as Americans are for Stanford or Dartmouth. On the other hand, the university systems are all but wholly socialized. Tuition is mostly negligible, and because the state tends to suppress differences in quality among universities, students are more likely than in the United States to live at home and attend local institutions.

For Europeans, therefore, financing education does not have the cataclysmic effect on family fortunes that it has for Americans. I do not want to overstate this point; it is far costlier for a European family to keep a child at home and in university than to send him out into the work force. That is one reason why, there as here, levels of participation in higher education correlate strongly with levels of family income. There as here, education is costly, and paying for it means that less wealth will be available for other purposes. But in Europe the intermediation of the state distorts the process more and makes the phenomenon more difficult to discern. The higher taxes paid by Europeans subsidize education as well as many other services, necessarily resulting in lower marginal incomes and lower accumulations of family wealth than would otherwise exist. This is, of course, a difference of degree rather than of kind, since most of American education, both preparatory and university, is publicly operated and tax-subsidized. But as is often the case in matters of economics, differences at the margin matter a great deal. The United States is unique among advanced countries in the extent to which education—especially the kinds of education that are most prized by the upper-middle classes—is paid for privately.

Pensions

The other great chapter in our saga of fundamental change in family wealth transmission concerns the phenomenon of retirement, and the resulting need to generate retirement income.

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As late as World War II, the private pension system was minuscule. Today, the assets of nonfederal pension plans (that is, private plans plus the pension funds of state and local government employees) exceed $2 *trillion*. By the mid-1980s, pension funds owned 22.8 percent of United States equities and about half of all corporate debt. Pension wealth is the largest asset of many middle- and especially upper-middle-class families. But pension wealth has special traits that mark it off sharply from traditional property, especially when we look at it from the standpoint of family wealth transmission.

The growth of pensions is the product of a demographic revolution. Life expectancy a hundred years ago was about forty-five years. Today, it is seventy-five years and climbing. Behind the awesome spurt in life expectancy over the last century or so is a phenomenon that James F. Fries and Lawrence Crapo of the Stanford Medical School have called "the elimination of premature disease." In the nineteenth century people mostly died of infectious diseases, often dying young. Changes in public health and the advent of antibiotics have all but eliminated mortality from such diseases. The causes of death in the twentieth century are strikingly different. Roughly three of every four deaths in the United States today stem from three causes: cardiovascular disease, cancer, and automobile and other accidents. The prominence of cardiovascular disease and cancer as killers is related to the elimination of infectious diseases. As Fries and Crapo note, "Survival from the diseases that used to kill early in life allowed the diseases that occur in later life to increase in frequency as a cause of death."

There were no pension funds in antebellum America because the lower life expectancy then meant that people tended not to outlive their period of productive employment. You were, so to speak, much more likely to die with your boots on. It is true that the average life expectancy a century ago was greatly lowered by infant mortality; your chances of surviving to a reasonable age were much enhanced once you had navigated the shoals of infancy. A white male who lived to age twenty in the year 1900 had an ultimate life expectancy of 62.2 years, and a white female aged twenty in 1900 had a life expectancy of 63.8 years. In 1980, by contrast, the projected life expectancy for whites aged twenty was 72.7 years for males (a gain of 10.5 years), and 79.7 for females (a gain of 15.9 years). The comparable figures for

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nonwhites are lower, but the rate of improvement across the twentieth century has been better, especially for women. Even after we correct for infant mortality, then, the shorter life expectancy of the last century sufficed to explain why contemporaries so seldom had occasion to talk about what we call the retirement-income problem. If you chanced to outlive your productive years, you did not in general do it for very long.

But what of the relative handful who did need retirement support? The well-known pattern was one of reverse transfer. Within the family, the children, now mature, would support superannuated parents. For propertied persons, however, this image of reverse transfer conceals an important point. In an earlier age when farms and firms were still owned by families, elders who were supported by their children in effect were living from their capital in the family enterprise, which would be passed on to the children when the elders died.

Saving for retirement

With the demise of family-centered farms and firms, the affluent elderly no longer expect to receive reverse transfers from their children. Instead, people of means are expected to foresee the need for retirement income while they are still in the work force, and to save for their retirement. Typically, these people have already undertaken one great cycle of saving and dissaving in their lives—that program by which they effected the investment in human capital for their children.

A priori, we might expect that individuals would be left to save for retirement without government guidance, much as they are left alone to save and spend for other purposes. That has not been the case. Instead, the federal government has intervened by creating irresistible tax incentives to encourage people to conduct much or most of their retirement saving in a special mode—the tax-qualified pension plan.

In a nutshell, there are three crucial advantages to conducting retirement saving through a tax-qualified pension plan. First, most contributions to the plan are tax-deferred. When my employer contributes to a qualified pension or profit-sharing plan on my behalf, or when I contribute to a defined contribution plan such as a 401(k) or a 403(b), I am saving with pretax dollars. If I am in the 33-percent bracket, the Treasury is contributing to my pension savings

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plan thirty-three cents in forgone taxation for my sixty-seven cents in forgone consumption.

The second great tax advantage is that the earnings on qualified plan investments accrue and compound on a tax-deferred basis. Not until I, the employee, retire and begin to receive distributions of my pension savings do I pay income tax on the sums distributed.

The third major advantage associated with pension taxation is that most retirees find that distributions from pension accounts are usually taxed at lower marginal rates because their taxable incomes are lower in their retirement years than in their peak earning years. As the income tax has become less progressive in recent years, however, this attribute of the system has become less significant.

As a matter of tax policy, Congress may be wrong to grant the level of tax subsidy for pension saving that it now does, especially since most of the subsidy flows to the upper half of the work force. But that would be a topic for another day. My present point is that the tax attractions of saving for retirement through the medium of tax-qualified pension plans are simply overwhelming. These advantages explain why employers incur the costs associated with sponsoring pension plans, and why employees—especially those in higher tax brackets—prefer to take compensation in the form of pension saving rather than cash wages. The private pension system—this $2-trillion-plus savings scheme—is tax-driven.

Another aspect of the pension system relevant to the patterns of family wealth transmission is that the system has been deliberately designed to promote lifetime exhaustion of accumulated capital; federal law tries to ensure that pension wealth will be consumed over the lives of workers and their spouses. I do not mean to say that the federal policy in favor of lifetime consumption of retirement savings cannot be defeated in a variety of circumstances, especially in so-called defined-contribution plans. The point is simply that, in the main, the federal policy to promote consumption of pension wealth achieves its goal; thus only a negligible fraction of pension wealth is transferred to the next generation.

The normal mechanism for consuming pension wealth is annuitization. Just as life insurance is insurance against dying too soon, annuitization insures against living too long. Annuitization allows people to consume their capital safely, that is, without fear of running out of capital while still alive. But if an annuitant cannot out-

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live his capital, the corollary is that the annuity itself disappears on his death. Thus annuitization is the enemy of inheritance.

I have been speaking only of the private pension system, which most directly substitutes for older forms of private wealth, but we should notice that the Social Security system has some similar traits. During the years before retirement, Social Security reduces conventional wealth accumulation, both because Social Security taxes diminish family resources and because the prospect of future Social Security benefits diminishes the need for other retirement saving. When paid, Social Security benefits are annuity-like, in the sense that they cease upon the deaths of covered workers and their spouses (except in the rare case where a deceased worker is survived by minor children). Like the private pension system, therefore, the Social Security system also substitutes for conventional wealth accumulation during life and retards wealth transmission upon death.

Both the pension system and the transfer of wealth to pay for education, then, are developments of enormous magnitude; both lead away from traditional wealth transfer on death. Propertied parents used to live from their patrimony in farm or firm and then transmit the patrimony at death. Modern parents tend to possess nontransmissible human capital more than older forms of property. Using their human capital to create lifetime income streams, modern parents now undertake two cycles of saving and dissaving, one for their children's education, the other for their own retirement. The investment in children necessarily occurs in the parents' lifetimes. And especially when retirement savings are channeled through the enticing format of the qualified pension plan, the pressures for annuitization cause this enormous component of modern family wealth to be largely exhausted upon the parents' deaths. Wealth transfer upon death, the fundamental pattern of former times, is therefore ceasing to characterize the dominant wealth-holding and wealth-transmitting practices of the broad middle classes.

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Educational goals and political plans

DANIEL PATRICK MOYNIHAN

AMERICAN POLITICS has been notable for its lack of ideological structure. We have had our share and more of ideological movements, but these have typically begun outside the system of political parties, thereafter seeking to influence and on occasion to penetrate the established institutions. The latter have in the main resisted this, usually preferring to soften distinctions and to compete for votes at the center. Accordingly, it is common for American politics to be described as pragmatic, in contrast to the complex social doctrines that guide European politics.

This American institutional peculiarity, however, conceals a long-established bias in favor of that obscure but enduring ideology known as social science, to which the Founders themselves explicitly acknowledged their debt; they asserted that the Constitution was drawn up in accordance with a "new science of politics," based on a realistic assessment of human motivation, which gave promise of stability through the interaction of clashing interests. Good revolutionaries, they placed an appropriately high value on

I acknowledge with gratitude the able assistance of David Rich.

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stability, but they looked for more than stable government; their science was intended to produce good government as well.

Instances abound of Americans' attempts to use social science to improve government. It was the American theory of penal reform, for example, that summoned Alexis de Tocqueville to upstate New York; only upon arrival did he look about him at American democracy.

Educational reform today

But of all such reformist enterprises none began earlier, has lasted longer, and remains as problematic as the effort to provide good and equal educational opportunity. Indeed, as a nation, once again we find that we are dissatisfied with our educational system. We do not seem to be turning out the students we had hoped for. A front-page story in the *New York Times* last March described the present as "a moment of widespread dismay with the schools" of New York City. And New York is scarcely alone. In 1983 a National Commission on Excellence in Education entitled its report *A Nation At Risk*. On every hand there was a litany, as Chester E. Finn, Jr., put it, of "allegation, lamentation, and evidence." The evidence—test scores—was damning, and the effort toward reform was seemingly stymied.

Recognition of the need for reform reached an apogee of sorts in 1990, when President Bush devoted a sizable portion of his 1990 State of the Union message to setting forth specific educational goals for the year 2000. The White House thereafter provided a text, which helpfully noted the moments when the Congress broke into "(applause)," "(light applause)," or "(continued applause, laughter)":

> Education is the one investment that means more for our future because it means the most for our children. Real improvement in our schools is not simply a matter of spending more. It's a matter of asking more, expecting more of our schools, our teachers, of our kids, of our parents and ourselves. And that's why tonight—(light applause)—and that's why tonight I am announcing America's education goals, goals developed with enormous cooperation from the nation's governors....
>
> By the—(applause)—by the year 2000, every child must start school ready to learn.
>
> The United States must increase the high school graduation rate to no less than 90 percent. (Applause.)

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> And we are going to make sure our schools' diplomas mean something. In critical subjects, at the fourth, eighth, and twelfth grades, we must assess our students' performance.
>
> By the—(applause)—year 2000, U.S. students must be the first in the world in math and science achievement. (Applause.)
>
> Every American adult must be a skilled, literate worker and citizen.

Now this is a large pronouncement, even granted the setting. We are told that the future is at stake. And not just the future of our youth, but that of our nation. Of a sudden, international politics has taken over what was once the modest domain of school boards whose members in most parts of the nation carefully avoid party identification.

We will return to the (drear) implications for the nation of the State of the Union address. The point here is that the President was speaking to Congress in a vocabulary created in the 1960s by the sociologist James S. Coleman, then of Johns Hopkins University, and his associates, notably Ernest Campbell of Vanderbilt University. Coleman and his associates conducted a survey of public schools and students in 1965, which was published in 1966 by the Office of Education of the U.S. Department of Health, Education, and Welfare. Entitled *Equality of Educational Opportunity*, the work soon became known as the Coleman Report.

The Coleman Report introduced the language of educational outputs, which was a wholly new way for public officials to define educational policy. This language has antecedents in economic concepts such as Leontief's input-output models and Kuznets's gross national product; but the report was unmistakably a work of sociology. It was the peculiar political fate of this most powerful government-sponsored social-science research of the later twentieth century to appear just as the federal government had lost the capacity to act upon it. Whether and when this capacity might be restored is another matter.

Educational failure and the war on poverty

Let us go back to January 1, 1964, when another government report—*One-Third of a Nation*—was issued. This report had its origins the previous summer,[1] when the author of the present essay, who was then Assistant Secretary of Labor for Policy Planning and

[1]See Daniel Patrick Moynihan, "Toward a Post-Industrial Social Policy," *The Public Interest*, no. 96 (Fall 1989), pp. 16-27.

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Research, noted that half—49.8 percent—of the young men who were examined for Selective Service had been rejected, having failed the mental test (the Armed Forces Qualification Test or AFQT), the physical test, or both. This seemed a large proportion. If on closer examination it was true that a goodly portion of the entire cohort of young men would fail, then we had a better case than we perhaps realized for the assorted education and training programs that President Kennedy had proposed to a generally indifferent Congress.

Selective Service was not in the least controversial at this time, while military preparedness is (almost) always an acceptable theme and an occasion, at times, for social enquiry.[2] Wherewith, the President's Task Force on Manpower Conservation. The Task Force was chaired by W. Willard Wirtz, Secretary of Labor, with Robert S. McNamara, Secretary of Defense; Anthony J. Celebrezze, Secretary of Health, Education, and Welfare; and Lieutenant General Lewis B. Hershey, head of the Selective Service System. I served as secretary, using the great capacities of the career civil servants of the Bureau of Labor Statistics and a more-than-cooperative Department of Defense to establish the baseline data.

We established, as the title of the report indicates, that if all the eighteen-year-olds in the population were to be tested, a third would be rejected for failing at least one of the tests. One-third was surely a large enough proportion to cause concern. But most striking was the variation among states.[3] In that most admirable northern tier of states running from the Great Lakes to the Pacific Ocean, educational failure was minimal: only 2.7 percent failed in Minnesota, and 3.6 percent in Washington. By contrast, the AFQT test-failure rates in the Old South were appalling: 51.8 percent failed in South Carolina, and 51.2 percent in Mississippi. Obviously, some jurisdictions—if you like, civic cultures—did better by their children than did others. This got close to home for this Assistant Secretary from New York, whose AFQT failure rate of 34.2 percent ranked it

[2]Tradition has it that the introduction of conscription during World War I first revealed to British authorities the ill health and educational deficiencies of the urban working class. The arrival of troops from Australia and New Zealand, who looked almost like members of a different species, is said to have made a striking contrast.

[3]*One-Third of a Nation* did not reestimate failure rates on a state-by-state basis. I use here the raw failure rates contained in General Hershey's annual Selective Service System report for 1963.

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forty-sixth in the nation, just ahead of Georgia, just behind North Carolina. The failure rate in New York, moreover, was more than twice that in Rhode Island (New York's neighbor across Long Island Sound), which had a rate of 14.3 percent.

This ought to have suggested that educational expenditures or other inputs did not automatically produce the output of educational achievement. There was no shortage of inputs in New York State as such matters were then understood. In terms of inputs, New York had one of the best school systems—if not the best—in the nation. New York was still the most populous state in the Union, and probably the wealthiest. Nonetheless, the only explanation that came to mind for the high failure rates was poverty.

On receiving the report on January 5, 1964, President Johnson issued a statement drafted largely by the present author:

> I am releasing today the report of the Task Force on Manpower Conservation, appointed by President Kennedy on September 30, 1963. I regard with utmost concern the two principal findings of that report.
>
> First, that one-third of the Nation's youth would, on examination, be found unqualified on the basis of standards set up for military service; and
>
> Second, that poverty is the principal reason why these young men fail to meet those physical and mental standards.
>
> The findings of the Task Force are dramatic evidence that poverty is still with us, still exacting its price in spoiled lives and failed expectations. For entirely too many Americans the promise of American life is not being kept. In a Nation as rich and productive as ours this is an intolerable situation.
>
> I shall shortly present to the Congress a program designed to attack the roots of poverty in our cities and rural areas. I wish to see an America in which no young person, whatever the circumstances, shall reach the age of twenty-one without the health, education, and skills that will give him an opportunity to be an effective citizen and a self-supporting individual. This opportunity is too often denied to those who grow up in a background of poverty.

Thereafter, the President recurrently referred to these findings. Lyndon B. Johnson was capable of appearing more empathic than he was, but these findings seemed to reach him. He clearly thought that evidence of dismal educational achievement would mobilize the society to improve it.

The logic seemed inescapable. If Minnesota could have a raw failure rate in an education test that was close to the incidence of very low IQ rates, then clearly it was possible to do as well elsewhere. It might have been objected—this was 1964—that the dual

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school systems of the South made such progress problematic in South Carolina or Mississippi, and there would have been agreement on this. But on what grounds could it be argued that New York was incapable of the performance of Rhode Island?

These were newly vigorous times in Washington. The assassination of President Kennedy had released great energy. Or was it anxiety? Either way, the capital was suddenly alive to all manner of possibilities, not least that of abolishing poverty. There were competing theories as to how this might be done, but only one set of data as to what needed doing, drawn from *One-Third of a Nation*.

In his 1964 State of the Union address President Johnson urged Congress to declare "all-out war on poverty ... in these United States," and in short order the Office of Economic Opportunity came into being. Its principal programs were educational, such as Head Start, an early childhood program pretty much modeled on the kindergarten created by Froebel in the first half of the nineteenth century in Europe, and the Job Corps, a form of residential vocational education. On its own, the Department of Defense began Project 100,000, an effort to bring into the Army young men who would otherwise have been rejected and to train them up to standards.

What we have here is a simple deficiency model. Poverty persisted because certain young people received too little education. The solution: give them more.

The importance of the family

Twenty-four years later another president—Ronald Reagan—declared, "My friends, some years ago, the Federal Government declared war on poverty, and poverty won." There were few to contest the statement for the simple reason that the subject had proved complex. Where there were simple deficiencies, as with income or health care for the aged, poverty had in fact been greatly reduced, if not overwhelmed. However, it turned out that, by the 1960s, trends were in place that would make the poverty of portions of the nation's youth seemingly irreducible. This would be the lurking, half-understood message of the Coleman Report.

It all began, unobtrusively, in a little-noticed provision of the epic Civil Rights Act of 1964, which mandated the Commissioner of Education to "conduct a survey and make a report to the President and the Congress, within two years..., concerning the *lack* of availability of equal educational opportunities for individuals by

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reason of race, color, religion, or national origin in public educational institutions at all levels in the United States...." [My emphasis.]

The report—*Equality of Educational Opportunity*—appeared thirty months after *One-Third of a Nation*. It was not, however, endorsed by a cabinet committee or hailed by a president. No new program was proposed based on its findings. To the contrary, it was released on the Fourth of July weekend, 1966, with a minimum of endorsement. The U.S. Commissioner of Education assured any potential readers that "[m]y staff members and the consultants who have assisted them on this project do not regard the survey findings as the last word on the lack of equal education opportunities in the United States." The Assistant Commissioner for Educational Statistics noted that "[i]n addition to its own staff" his office had "used the services of outside consultants and contractors," such as "James Coleman." No middle initial for outside consultants.

It was not until p. 21 of the Summary report that readers might have sensed that here was something new under the sun: "The first finding is that ... schools are remarkably similar in the effect they have on the achievement of their pupils when the socioeconomic background of the students is taken into account."

One-Third of a Nation had been reported on the front page of the *New York Times*. Coverage of the release of *Equality of Educational Opportunity* was buried on page 24 of the *Times* on July 2, 1966; but *Times* reporter John Herbers, a journalist of rare insight, spotted the news. What was surprising, he noted, was that "differences in schools had very little effect on the achievement scores of children with a strong educational background in the home." In the words of the Commissioner of Education, "[F]amily background is more important than schools."

Congress had called for a report concerning the "lack of availability of equal educational opportunities." The report that came recorded little by way of unequal opportunities, as then understood, but great differences in educational *achievement*. Coleman later revealed, if that is the term, that he and his associates had started out with a radically different notion of the world they were mapping:

> [T]he major virtue of the study as conceived and executed lay in the fact that it did not accept [the traditional] definition[;] ... by refusing to do so, [it] has had its major impact in shifting policy attention from its traditional focus on comparison of inputs (the traditional measures of

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> school quality used by school administrators: per-pupil expenditures, class size, teacher salaries, age of building and equipment, and so on) to a focus on output, and the effectiveness of inputs for bringing about changes in output.

In 1990 Chester E. Finn, Jr., described the impact of the report in terms of the "paradigm shifts" discussed in Thomas Kuhn's *The Structure of Scientific Revolutions*: whereas the old paradigm posited a "direct and automatic ... causal relationship between inputs and outcomes[, so] that altering the former was believed ineluctably to change the latter," the new paradigm held that inputs "did not necessarily have any effect on [outcomes].... Educational achievement and other desired outcomes, it seemed, were strongly influenced by many factors (some external to the formal education system), such as home environment, peer group, and exposure to television."

Finn records that the response to Coleman's new paradigm was "initially, a mixture of bafflement and hostility." More importantly, and largely because of the timing of the report's release, it was subdued. Just as *One-Third of a Nation* appeared at the outset of an extraordinary period of political initiative and innovation in American national politics, so *Equality of Educational Opportunity* appeared just when that period came to a close, thirty months later.

In a 1965 message to Congress, Johnson, drawing on *One-Third of a Nation*, had stated that "nearly half the youths rejected by Selective Service for educational deficiency have fathers who are unemployed or else working in unskilled and low-income jobs." This observation anticipated Coleman, but did not quite get at his point. The importance of family was evident, but since there was "nothing" to be done about family, "educational deficiency" had to be offset in the schools. The President therefore proposed a new program of financial assistance to public schools serving children in "low-income families[,] ... with the assurance that the funds will be used for improving the quality of education in schools serving low-income areas." (This became Chapter 1 of Title I of the Elementary and Secondary Education Act of 1965, which is still in effect today.)

What if Coleman's work had been available at the outset of the thirty months in which Lyndon Johnson's attempt to reduce poverty held sway? Would the war on poverty have taken a different direction, a different cast? Not likely. This was a time when a great many interest groups were getting attention for their agendas,

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almost all of which were defined in traditional input terms. Civil rights apart, there was no more insistent claim than for "federal aid to education." It came now in the form of the Elementary and Secondary Education Act of 1965. Although this was not the straightforward federal cost sharing that had been sought from the time the post-war baby boom appeared, it was still federal aid. Social science was welcome to help make the case *for* it, but no more than that.

Publicizing Coleman's message

In any event, as noted, Coleman's work appeared at the close of a period of innovation and experiment. The real challenge was to ensure that the work secured a place in the realm of policy analysis and debate. For practical purposes its sponsor, the Office of Education, with the full knowledge of the Office of the Secretary of Health, Education, and Welfare, had sought to suppress it. An effort now began to see that it survived. This was not difficult; Coleman was a well-established academic with a wide acquaintance in the circle of (then) liberal Democrats, assorted socialists, and unreconstructed Californians associated with the new journal *The Public Interest*. Coleman contributed an article, "Equal Schools or Equal Students," to issue No. 4, Summer 1966. He wrote:

> The sources of inequality of educational opportunity appear to lie first in the home itself and the cultural influences immediately surrounding the home; then they lie in the schools' ineffectiveness to free achievement from the impact of the home, and in the schools' cultural homogeneity[,] which perpetuates the social influences of the home and its environs.

That fall I took the report to Theodore R. Sizer, the ebullient dean of the Harvard Graduate School of Education, who immediately grasped that here was something new and important. A faculty seminar was organized, which attracted some eighty professors and graduate students from all manner of disciplines and from all over the country. (Most importantly, it attracted the attention of Frederick Mosteller, Chairman of the Harvard Department of Statistics.) Jason Epstein of Random House also recognized that something of large consequence had come along and cheerfully published *On Equality of Educational Opportunity* (Frederick Mosteller and Daniel P. Moynihan, eds.), a massive collection of

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papers prepared in connection with the seminar. The research was now securely in the public domain.

The seminar, in effect, "reran" the Coleman data; the numbers came out the same. Two decades later, Eric A. Hanushek, who had been a member of the seminar, reported that the conclusions remain valid:

> Two decades of research into educational production functions have produced startlingly consistent results: Variations in school expenditures are not systematically related to variations in student performance.... These findings suggest that school decision making must move away from traditional "input directed" policies to ones providing performance incentives. The concentration on expenditure differences in, for example, school finance court cases or legislative deliberations, appears misguided given the evidence.

Or consider Hanushek and John E. Chubb, writing in 1990 on "Why 'More' Has Not Meant 'Better'":

> Education policy is usually seen as a problem of selecting the correct inputs.... There is a fundamental problem with this approach, however.... For more than two decades—since the massive government study, *Equality of Educational Opportunity*[,] was conducted in the mid-1960s—researchers have tried to identify inputs that are reliably associated with student achievement and school performance. The bottom line is, they have not found any.

Standing alone, this body of research might not present any political difficulties. But it does not stand alone. To the contrary. Research in other areas led University of Massachusetts sociologist Peter H. Rossi to announce his Iron Law: "If there is any empirical law that is emerging from the past decade of widespread evaluation research activities, it is that the expected value for any measured effect of a social program is zero."

Writers in *The Public Interest*, for example, had begun to suspect this; their doing so made them objects of suspicion in turn. A sometimes savage critique arose. Every finding of fact was scrutinized for intention. In the end a neoconservative school emerged, convinced that liberalism had become a closed doctrine. And yet the political system as a whole remained open enough to Coleman's insights. It was not impossible to argue that if we did not know enough about how to get inputs to yield a desired outcome, we simply needed to learn more. On the other hand, the attempt to learn more was scarcely rewarding.

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In 1970, as Counselor to President Richard M. Nixon, I drafted, with the inspired help of Finn and others, a Special Message to the Congress on Education Reform, a statement drawn almost entirely from Coleman and the seminar that followed. There were two proposals worthy of notice. First was the creation of a National Institute of Education to continue the Coleman quest.

> There is only one important question to be asked about education: What do the children learn?
>
> Unfortunately, it is simply not possible to make any confident deduction from school characteristics as to what will be happening ... in any particular school. Fine new buildings alone do not predict high achievement. Pupil-teacher ratios may not make as much difference as we used to think. Expensive equipment may not make as much difference as its salesman would have us believe.
>
> And yet we know that something does make a difference.
>
> The outcome of schooling—what children learn—is profoundly different for different groups of children and different parts of the country. Although we do not seem to understand just what it is in one school or school system that produces a different outcome from another, one conclusion is inescapable: We do not yet have equal educational opportunity in America.
>
> The purpose of the National Institute of Education would be to begin the serious, systematic search for new knowledge needed to make educational opportunity truly equal.

With the notable assistance of the late Edith Starrett Green, Representative from Oregon, and John Brademas, then Representative from Indiana, the National Institute of Education was in fact created, and located in the Department of Health, Education, and Welfare. Regrettably, it was a waste of money and, indeed, of presidential assets. No one wanted to hear from Richard M. Nixon that "the educational effectiveness of many special compensatory programs[,] ... despite some dramatic and encouraging exceptions[,] ... [is] not yet measurably improving the success of poor children in school." This was dismissed because it was somehow taken to mean that President Nixon opposed Head Start.

The education message, which was stuffed with proposals for increased funding of one established program or another, also called for a Presidential Commission on School Finance to address a familiar range of issues. In one respect, however, it was unique. It clearly was partial to some form of support for Catholic schools. These were described as "non-sectarian, Catholic, Protestant, Jewish and other" but to my thinking it was the Catholic schools that

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mattered most, for the two simple reasons that there were more of them and that so many were located in inner-city neighborhoods.

It did not require any great immersion in the Coleman data to sense that whatever-it-was-that-worked for "disadvantaged" children was most likely to be found in denominational schools and that whatever-that-was might prove transferable, so long as the models remained in place. In the 1980s, Coleman, in association with Thomas Hoffer and Andrew M. Greeley, would publish research on Catholic education of great interest. The now familiar themes of family and community emerged to account for the better performance, notably in inner cities, of parochial schools. The breakdown of "functional communities" had followed the breakdown of family.[4] Public schools somehow could not connect with children in the way that parochial schools somehow could.

But by this point the political parties had taken sides. In the 1970s a tuition tax credit for private schools passed the House of Representatives and might have passed the Senate save for fierce opposition from Democratic President Jimmy Carter. His successor, Republican Ronald Reagan, just as emphatically supported tuition tax credits; but they were not enacted, given the now settled opposition of Democrats. On the other hand, by the 1990s the case for a more pluralist educational system was being advanced with considerable vigor.[5]

Unrealistic goals

At the same time, a general pattern of avoidance in Washington led to such mindless exercises as the education goals set out in

[4]Consider the evidence provided by Marian Wright Edelman of the Children's Defense Fund in her 1990 commencement address at Howard University: "Every 79 seconds, an unmarried Black woman has a baby. Over 62 percent of Black babies are being born to unmarried women, which almost guarantees the poverty of the majority of the next generation of Black children. Every 3 minutes and 38 seconds, a Black teenager has a baby....Five out of six young Black female-headed families are poor." Note also that "[e]very 30 seconds of the school day, a Black child drops out."

[5]See James S. Coleman, Thomas Hoffer, Sally Kilgore, and Samuel S. Peng, *Public and Private Schools*, National Center for Education Statistics, 1982; Thomas Hoffer, Andrew M. Greeley, and James S. Coleman, "Achievement Growth in Public and Catholic Schools," *Sociology of Education*, American Sociological Association, Volume 58, Number 2, April 1985; and James S. Coleman and Thomas Hoffer, *Public and Private Schools: The Impact of Communities* (Basic Books, 1987). See also John E. Chubb and Terry M. Moe, *Politics, Markets and America's Schools* (Brookings Institution, 1990).

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the State of the Union address of 1990. The mode of analysis could be traced to Coleman; but the rigor was absent altogether.

This thought should be pressed, not least by the research community. President Bush's goals were not merely proclaimed. They were in a legitimate sense negotiated with the governors of the states. He and the governors met to discuss the subject—one of three such gatherings in our history—in the Fall of 1989. The press office of the National Governors' Association was near to breathless on the outcome. A press release described the agreement to establish national education performance goals as "an historic first."

The following February, the National Governors' Association specifically endorsed the goals set forth in the State of the Union address. Through its emphasis on outputs, the Coleman Report had changed the terms in which political executives addressed the subject of education. What it did not do, and could not be expected to have done, was to invest these terms with an appropriate sense of accountability. For on no account could the President's goals—the quantified, specific goals—reasonably be deemed capable of achievement.

It will readily be seen that some of the presidential goals were essentially nonquantitative, such that we will never know for sure whether we have achieved them. By the year 2000 "every child must start school ready to learn". Most of us would grant that readiness to learn is an elusive concept, although we are often surprised by what we learn to measure. Similarly, it is hard to be sure just what the President meant when he said that "every adult must be a skilled, literate worker and citizen." We get the idea, of course. But measuring the outcome would seem to present difficulties. Just what do we mean by "skilled" or "literate"? But then again, we might very well find a measure of such qualities. When an employer advertises for a "skilled mechanic" those concerned seem to know what is involved. Why not, then, a "skilled citizen"?

Let us concentrate, however, on those two specific, numerical goals: that American students attain a 90-percent graduation rate and be first in the world by the year 2000 in math and science achievement. In preparing this essay, I wrote to half a dozen people who had taken part in the Harvard faculty seminar on the Coleman Report in the 1960s to ask what they thought were the prospects of achieving these goals by the year 2000. Two respondents replied that the goals were "completely unreachable" and

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"unrealistic"; another said that it was "barely conceivable" that we would meet the graduation goal, and a fourth held out "little hope of even beginning on the path to the goals."

The final two respondents were somewhat more sanguine. One agreed that the two goals "are ... very hard to attain," but he "would not go so far as to say [that achieving them is] impossible"; while "skeptical," the final respondent was "impressed by the vigor" with which the governors were "attack[ing] this education issue."

I would note that the last two responses came from people who have been practitioners as well as researchers, and thus are not disposed to let hopes die too easily. I would note also that two respondents were more sanguine about graduation rates, and one suggested that to be "first in the world in science and mathematics" might be an amorphous goal—would it be enough to have the most Nobel laureates?—as against the general understanding that the President was talking about test scores on various international comparisons. Accordingly, it should be made clear that I am the one holding that the President's goals are unattainable. I assume that most social scientists in the field would agree; but then agreement is never universal, nor ought it to be.

In any event, our subject is not the goals, but the relation of social science to politics in this field. As regards the goals themselves, my views derive from two sets of observations. Neither is conclusive, but then we won't have to wait long to see if the goals are met.

A first set of observations is that in recent years we seem to have been moving away from these goals rather than toward them. The big change in high school graduation rates came in the half-century from 1910 to 1960. Graduation was rare at the beginning of this period (8.8 percent of seventeen-year-olds achieved it), and common at the close (69.5 percent). By 1964 the graduation rate had reached 76.7 percent, and in 1970, 76.9 percent. Then it slumped considerably to a 1980 low of 71.4 percent, from which it has since risen to 74.0 percent in 1989. (Incidentally, don't trust any of these decimal points. They give the illusion of accuracy much too common in government statistics.) We seem to be doing a little better, but not as well as we did a quarter-century ago. The 1980s did show an improvement, but by no more than 2.6 percent. Double that for the 1990s and by the year 2000 we will have reached 79.2 percent, not far above the level of 1970.

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So far as rank order is concerned, educational outcomes in the late 1980s look very much like those of the early 1960s that were recorded in *One-Third of a Nation*. In 1962 Minnesota ranked first in AFQT scores (which is to say it had the lowest failure rate). In 1988 Minnesota had the highest graduation rate. New York was forty-sixth in the 1962 AFQT rankings, and forty-sixth in the 1988 graduation rankings, a quarter-century later.[6] In truth, the graduation rate in New York State has been declining steadily since the 1960s. (It was at 73.5 percent for the class that entered in the fall of 1965, but it declined to 66.3 percent for the class that graduated in June 1988.) As for funds, the National Center for Education Statistics reports that for 1989-1990, New York, at $7,153, had the third highest per-pupil expenditure in the nation, following only Alaska (whose $7,411 figure is inflated by the high cost of living there) and New Jersey ($7,312). New York was well above the national average of $4,448. By contrast, California—the largest state—was slightly below that average with a per-pupil expenditure of $4,392. As for those pesky 1988 graduation rates, while New York was forty-sixth in the nation, neighboring New Jersey ranked fifteenth.

Now to the President's goal of moving America up to first in the world in science and math scores by the year 2000. *The Budget of the United States Government, Fiscal Year 1991* has a bar chart that shows us ninth-grade science scores as evaluated by the International Association for the Evaluation of Educational Achievement. The chart is entitled "GRADE 9 SCIENCE ACHIEVEMENT IN THE U.S. LAGS BEHIND OTHER INDUSTRIALIZED COUNTRIES." In this ranking, Hungary is first, followed by Japan, Canada, Finland, Sweden, England, and, finally, the United States. These rankings seem to bounce around a bit. High school seniors in Hong Kong and Singapore regularly come out first in physics, chemistry, and biology. England often ranks second. The United States rarely makes the first ten.

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[6]Please note that I do not claim that the high school graduation rate is a surrogate for whatever it is that is tested by the AFQT. Yet there is some evidence that it is such a surrogate. In December 1989 a study sponsored by the Office of the Assistant Secretary of Defense noted that "[d]ecades of study results have demonstrated that those without a high school diploma are twice as likely as high school graduates to leave the military before completing a full term of service." See Janice H. Laurence, Peter F. Ramsberger, and Monica A. Gribben, *Effects of Military Experience on the Post-Service Lives of Low-Aptitude Recruits: Project 100,000 and the ASVAB Misnorming*, Human Resources Research Organization, p. 2.

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Most striking is the case of Hungary. Nineteenth-century Hungary developed a high scientific culture. Much of modern physics came out of the University of Budapest in the early years of this century. (Much of the Manhattan Project was the work of native Hungarians who had fled Europe.) But the twentieth century was not kind to Hungary. War, revolution, and tyranny followed in seemingly inexorable succession. Hungary is just now emerging from a half-century of fascism followed by communism. Just about anything you could do to a people has been done to Hungarians. But nothing has been able to prevent Hungarian schoolchildren from learning physics. By contrast, is there any reason to think that American schoolchildren will reverse their long-established performance patterns in these measures in the space of a decade?

The presidential goals set out in 1990 for the year 2000 would have been more defensible were it not for the fact that in 1984 the preceding president had set out substantially the same goals for 1990. In particular, the goal of a 90-percent graduation rate seems to have gotten stuck in the memory bank of the White House word processors: in 1984 President Reagan called for reducing the dropout rate "to 10 percent or less" before the end of the 1980s.

It is safe, I would think, to regard the dropout rate as the reciprocal of the graduation rate. Surely the two goals are approximately the same.[7] The Reagan goal was not met; it was not even approximately met.

There was another goal set forth by President Reagan in 1984: "Before this decade is out, we should regain at least half of what we lost in the sixties and seventies on scholastic aptitude tests." Let us examine this proposition. Between 1984 and 1989 the mean SAT verbal score for college-bound seniors did increase—by two points, from 426 to 428. That is after having dropped forty points from the peak reached in 1967. The closure was nowhere near the half-way point.

My second set of observations has to do with how little the education innovations of the past quarter-century seem to have changed some measures of educational achievement.

[7]What neither rate takes into account is the number of people who eventually receive a General Education Development (GED) diploma. According to Marshall S. Smith, including these "graduates" in the graduation rate would increase the 1989 rate from 74 percent to 78 percent. There has, however, been a marked reduction in the number of people receiving GEDs. In 1989, 13.4 percent fewer GED diplomas were awarded than in 1988, despite a decline in the graduation rate. See American Council on Education, *The 1989 Statistical Report* (GED Testing Service, 1990).

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Yet to leave the matter there would miss the point, for Coleman did more than put in place a new way of thinking about education. He also put in place a potentially powerful mode of accountability. His outputs, measured by specialists, can still be grasped by the general public. If, as forecast here, the year 2000 arrives and the United States is nowhere near meeting the education goals set out in 1990, the potential will nonetheless exist for serious debate as to why what was basically a political plan went wrong. We might even consider how it might have turned out better.

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Business ethics past and present

DAVID VOGEL

WHILE BOTH public and scholarly interest in business ethics have increased significantly over the last decade, the subject itself is not new; in fact business ethics is an integral part of the Western ethical tradition. The public has been concerned with the ethics of business ever since a market economy began in the West more than 750 years ago.

Unfortunately, most contemporary writing on business ethics is ahistorical. Aside from the obligatory references to Kant and Mill, one rarely finds any serious discussion of concepts or ideas that date back more than a few decades. The relevant writings of Aristotle and of the Catholic and Protestant theologians who thought long and hard about the ethics of business are rarely cited. One also finds remarkably few references in the contemporary business-ethics literature to the works of scholars such as Max Weber, Albert Hirschman, and Michael Walzer—all of whom have written extensively about the historical roots of capitalism as an ethical system.

While there is a rich secondary literature on business ethics, it is significant that it includes few historical works. Nor do any of

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the widely used business-ethics texts extensively discuss the history of the use of ethical concepts to evaluate business behavior during the last few centuries. The last decade was certainly not the first in which the ethics of American business was widely criticized: the moral shortcomings of financiers, bankers, and investors have been noted recurrently in American history. Yet to date no one has understood the contemporary resurgence of ethical criticism of business historically, by examining the interactions of business with government and society in earlier times.

In many important respects, the ethical standards to which we hold business have remained remarkably constant over a long period of time—though obviously many of the specific aspects of business conduct that trouble us today are new. Moreover, many of our contemporary debates about the nature of business ethics are centuries old. By drawing upon this rich intellectual history, we will be better able to appreciate the nature and significance of many current concerns.

The Protestant ethic

The emergence of capitalism in sixteenth-century Europe was closely associated with the Protestant Reformation. In an important sense, Protestantism made business ethics possible. To the extent that medieval Catholic theology held that moneymaking was morally suspect, it could not establish moral standards for its pursuit. As St. Augustine put it, "[T]he businessman ... may conduct himself without sin, but cannot be pleasing to God." And St. Thomas Aquinas believed that most forms of trade conducted for profit were inherently immoral, holding that "he who in trading sells a thing for more than he paid for it must have paid less than it was worth or be selling it for more."

Catholic theologians did distinguish among types of economic activity. They regarded producing a good for sale as less ethically suspect than either trading in goods or extending loans, for example. But for the most part, business activity was regarded as beyond the moral pale: the only ethical advice given by Christ to the merchants and tradesmen that he encountered was to abandon their work and follow him. A moral businessman was thus a contradiction in terms. In a way, a Catholic could no more have been an ethical moneylender six centuries ago than he could be a socially responsible drug dealer today.

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If an activity is regarded as inherently immoral, the only moral course of action is to disengage from it entirely. The contemporary moral case against such business activities as investing in South Africa, manufacturing and marketing cigarettes, or producing strategic weapons represents an echo of the more sweeping medieval case against finance in particular and the pursuit of profit in general. During the intervening centuries the specific sources of profit regarded as inherently unethical have changed, but the moral standard for evaluating the ethics of business activities has remained remarkably stable.

Not surprisingly, many medieval merchants did in fact act like contemporary drug dealers. After all, if their activity was thought to be immoral to begin with, why should they have tried to perform it ethically? As the sociologist Paul Blumberg notes, pre-Reformation capitalism was rooted in a "rampant individualism which knew few scruples.... The capitalist mentality of the medieval business classes rested on the dictum: 'A profit is a profit, however it is acquired.'" For example, merchants in Italian city-states thought nothing of putting the bodies of diseased animals into the shops of their competitors in order to make them, their employees, and their customers ill.

It was by morally sanctifying the pursuit of profit that Protestantism made business ethics possible. While traditional Catholic theology viewed work at worst as a curse and at best as a distraction, Protestantism held that a businessman's work could be pleasing to God. Not only could one serve God by working, but the correct use of wealth was precisely to increase it for the glory of God. Consequently, the pursuits of profit and of heaven became not only compatible but mutually reinforcing. A diligent worker, for instance, was less likely to be tempted by the devil. And being rewarded with financial success was now understood as a sign of God's favor. In short, the Reformation made it possible for a successful businessman to be an ethical individual as well.

John Calvin's radical doctrine of predestination was never widely shared, even among Protestants. But a more secular version of Protestant business ethics did become important in Western popular culture. It is to this Protestant ethic that we owe our contemporary effort to understand the relationship between personal virtue and financial success, between corporate ethics and profitability.

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Irving Kristol has described nineteenth-century America as "a society in which it was agreed that there was a strong correlation between certain personal virtues—frugality, industry, sobriety, reliability, piety—and the way in which power, privilege and property were distributed." Success was associated with the performance of duty—a point made repeatedly in the Benjamin Franklin homilies and Horatio Alger novels that were read by literally tens of thousands of schoolchildren then.

Kristol correctly notes that nineteenth-century Americans were extremely interested in the relationship between good moral character and success in business. But he appears to have exaggerated the extent to which they regarded the two as closely related. By the end of the century numerous successful industrialists were certainly repugnant to many Americans. In Gustavus Myers's 1909 work *History of the Great American Fortunes*, Jay Gould—an extremely successful financial operator—is described as a "freebooter, ... a pitiless human carnivore, glutting on the blood of his numerous victims, ... [and] a gambler destitute of the usual gambler's codes of fairness in abiding by the rules"—hardly the portrait of a man whose accumulation of wealth would have been pleasing to God.

A secularized ethic

Contemporary discussions of business ethics focus less on questions of individual character than was true a century ago. Indeed, we appear to have almost completely lost sight of the fact that the word "ethics" is derived from the Greek term *ethos*, meaning "character." Because much economic activity now takes place through organizations, today we are less interested in the character of individual businessmen than in the decision-making processes of business firms. Consequently we tend to use the terms corporate social responsibility and business ethics almost interchangeably.

In addition, contemporary discussions of business ethics are overwhelmingly cast in secular terms. The profound Judeo-Christian roots of the Western tradition of business ethics are rarely examined. Even those theologians who write about business ethics seldom refer to the concepts of sin, evil, or divine judgment. Nevertheless, we remain no less preoccupied with the relationship between morality and profits than Weber's Calvinist merchants or Kristol's nineteenth-century schoolchildren.

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Indeed, one's assessment of the relationship between morality and profits is a virtual litmus test of one's overall appraisal of the ethics of American business. The harshest critics of American business ethics tend to assume that the relationship between ethics and profits is either random or negative; members of this camp include the large percentage of Americans who believe that companies often behave irresponsibly in order to increase their profits. Many certainly believe that financially successful firms are apt to be less ethical than those less favored by the invisible hand. Though their reasoning may differ, those who hold this view reach a conclusion akin to that of Augustine and Aquinas.

On the other hand, a secular variant of the Protestant ethic has now been revived by the mainstream business community. The reports on business ethics issued by such organizations as the Business Roundtable and Touche Ross argue that good ethics is good business. They claim that it is possible to be both virtuous and successful, and even that moral virtue is necessary for success. Thus former Securities and Exchange Commission chairman John Shad asserts that "ethics pays. It's smart to be ethical."

To hold this view is not to insist that socially responsible firms are always profitable. But then even the Protestant clergymen of seventeenth-century Europe and nineteenth-century America did not preach that good people invariably prospered or achieved salvation. The claim instead is that being "good" or "responsible" is a necessary though not sufficient condition for succeeding in the marketplace. In other words, not all virtuous firms and individuals will succeed, but all successful ones are likely to have been virtuous.

There is also an equally important implicit corollary, which is that those who behave badly will be punished. This punishment takes the form of customer and employee dissatisfaction, criticism in the media (all presumably resulting in reduced profits), and—in extreme cases—civil or criminal prosecution. For the Protestant clergy punishment was deferred to the afterlife, though its form was both more consequential and more enduring than that commonly meted out by secular authorities and the market.

Many scholars have attempted to measure the relationship between the social responsibility of a company and its financial performance. Important as this research is, in a way it is also beside the point: the appeal of Calvinism and Horatio Alger did not rest on the demonstrated validity of their causal models. It may

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make more sense to regard the Business Roundtable's view as the contemporary, secular equivalent of a Protestant sermon. Like many of the statements on business ethics made by businessmen, its real purpose is to exhort the business community to improve its moral behavior. And just as the Protestant clergy promised salvation as a reward for virtue, so does the Roundtable promise improved profits as a reward for ethical business conduct.

In principle, the Roundtable's position may be more demonstrable than that of the Protestant clergy; but in the final analysis, both rest on faith. Equally important is that both predictions are meant to be self-fulfilling. Thus if large numbers of executives are persuaded that good ethics is good business, the two in fact are likely to turn out to be positively correlated. Alternatively, if many executives believe in a trade-off between them, the ethics of business is less likely to improve.

In sum, people have been interested in the relationship between ethics and profits for a long time. The debate over the nature of their relationship remains central to our appraisal of the moral legitimacy of business. Just as the Protestant ethic played an important role in legitimating capitalism, so are the efforts of today's business community to correlate ethics with profits important as an attempt to firm up the moral legitimacy of our contemporary business system. Alternatively, those who argue that a good person cannot succeed in business, or that a socially responsible company is handicapped in the marketplace, are challenging the ethical foundations of our market economy; in effect they are arguing, as did many medieval Catholic theologians, that business ethics is an oxymoron.

The emergence of ethical or socially responsible investment funds and programs can also be understood in this context. Like Calvin's sermons and Alger's novels, these funds appeal to the desire of the public to be both virtuous and prosperous. The funds are based on the assumption that not only is there no trade-off between virtue and prosperity, but that in many cases they are mutually reinforcing. For all the progressive political rhetoric that surrounds these funds, their core assumptions are actually quite similar to those of the Business Roundtable. And their depiction of the relationship between ethics and profits, like the Roundtable's, is also meant to be self-fulfilling: presumably if many investors act on the belief that a responsible firm will likely be more profitable, then the price of its shares will rise accordingly. The popularity of

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these funds suggests that the moral issues that troubled Aquinas and Calvin remain: evidently many people are still searching for a way to accumulate capital without sin.

The capitalist legitimation of economic success

The notion that successful businessmen could be good human beings constituted an important dimension of the original moral case for capitalism. A second dimension involved a new understanding of the relationship between economic success and the public good.

In pre-market economics, the acquisition of wealth was primarily a zero-sum game. One became wealthy primarily by fighting or taxing others, so as to take their resources. What made capitalism unique was its claim to have developed a mechanism though which it was possible for an individual to acquire wealth that not only did not harm others, but actually benefited them. This mechanism was, of course, the market. In principle, the only way to acquire wealth in a market economy is to satisfy the material needs of others; profits reward businessmen for successfully fulfilling the legitimate expectations of their employees, customers, and investors.

Wealth accumulated through the market does not lessen the total volume of available goods and services: the consumer is no worse off for having exchanged his money for a commodity than is the merchant who now has fewer goods and more money. Thanks to the market, both are better off than they would otherwise have been, though not necessarily in the same proportion.

Prior to capitalism, virtually all profit tended to be regarded as profiteering; it appeared to be rooted in extortion rather than fair exchange. Accordingly, it was morally suspect. What capitalism did was to provide an ethical justification for moneymaking; capitalism's claim to be the world's first fair economic system was predicated on the understanding that the merchant, unlike the Roman warrior or the feudal lord, actually deserved his material wealth. In short, capitalism purported to be the first social system in which the wealthy could claim that they simply received a just reward for performing a socially useful function.

Centuries after the birth of capitalism, we continue to judge the acquisition of wealth by this standard. For many free-market economists, the moral case against government intervention in the economy is that government divorces acquiring wealth from serv-

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ing the needs of society as expressed through the market. Protective tariffs, subsidies, tax breaks, legally sanctioned cartels, and monopolies—all can be viewed as relics of mercantilism, the system of business-government relations whose abuses and inequities were denounced by Adam Smith in *The Wealth of Nations*. Government intervention does create wealth, of course; that is precisely why there are so many lobbyists in Washington. But the moral claim of its critics is that much of the wealth created by government intervention is extorted rather than earned; it reflects political influence rather than social contribution.

Many contemporary economists and political economists tend to regard government as the primary if not the exclusive source of illegitimate wealth in capitalist societies. Even though this perspective tends to overlook the numerous regulations and public expenditures that clearly benefit society, it is not unreasonable. Newspapers are replete with examples of bankers or developers who have used their political influence to acquire large sums of money—in each case clearly harming significant numbers of their fellow citizens. Adam Smith would surely not have been surprised by the savings-and-loan debacle or the recent scandals at HUD; he would likely have regarded them as the inevitable outgrowth of a system of political economy that rewards political privilege rather than economic performance.

The continuing critique of market profits

For much of the American public, however, government is not the only source of illegitimate wealth. Many citizens deny that wealth accumulated through the market is inherently moral. Instead they subject market profits to the same ethical standards that Smith employed in criticizing mercantilist profits.

Consider, for example, the response of the American public to the increased earnings of the major integrated oil companies following the oil-price rise of 1973. Were these profits deserved? The vast majority of gasoline consumers did not think so. Responding to pressures from the electorate, the federal government immediately established controls on energy prices in an effort to limit oil-company profits. And when energy prices were subsequently deregulated, the government imposed a "windfall" or "excess" profits tax on the integrated oil firms in order to prevent them from benefiting from the removal of price controls.

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Now from the point of view of neoclassical economics, the notion of an "excess" or "windfall" profit is meaningless. (One is reminded of the *New Yorker* cartoon in which an elderly executive reading the paper at his club turns to his friend and exclaims: "In all my many years in business, I have yet to see an excess profit!") In fact, the terms reflect not an economic analysis but a moral critique.

Why did so many Americans regard the oil companies' earnings as an example of "profiteering"? In other words, why did they consider them to be "undeserved"? Two reasons seem particularly significant. First, the profits did not reflect any additional effort on the part of the oil companies, which had not discovered new oil reserves or improved their operating efficiency in 1974. Instead their increased earnings were largely inventory profits: substantial wealth was being transferred to them for no other reason than that a group of Arab oil ministers had suddenly discovered how to form a successful cartel. The companies' profits were due less to their economic contribution than to the fact that they happened to be in the right place at the right time; in short, they made a fortune only because they had been fortunate.

Secondly, the good fortune of the oil producers had important distributive consequences: it was accompanied by substantial suffering on the part of American consumers. Indeed, the fortune and the suffering appeared to be almost physically linked: it was as if the increased price of gasoline at the pump represented a direct transfer of wealth from consumers to shareholders and executives. The proposed deregulation of energy prices promised to raise gasoline prices still further: many regarded it as unfair for a small group of executives and stockholders to benefit from the sacrifices of millions of ordinary Americans.

Not surprisingly, the maintenance of price controls on energy in the recent past evokes the medieval concept of the "just price." This term, too, has no economic meaning. Rather it derives from the notion, widely shared in medieval Europe, that those who controlled access to certain critical commodities, particularly when their control was due to an "act of God" rather than their own initiative, were not entitled to all the profits that the "normal" workings of the market allowed.

Critics have also raised questions about social contribution and fairness in connection with the profits received by investment bankers in return for their efforts to restructure the American

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economy. Robert Reich has described some members of the American financial community as "paper entrepreneurs"—yet another term of moral opprobrium rather than economic analysis. Reich's criticism of financiers who have made large fortunes by buying and selling, or by putting together and breaking up existing companies, is remarkably similar to the medieval Church's strictures against usurers.

The Church, although it frowned upon all forms of money-making, was particularly critical of banking or money lending. It argued that it was wrong for people to be paid back more money than they had lent, since they had not improved their commodity in any way. Gold and silver were essentially "sterile": they represented a convenient way to measure wealth, but they themselves were incapable of adding to the resources available to sustain life. Accordingly, while farmers or craftsmen were entitled to charge for their labors, bankers were not.

This, of course, is precisely why Reich is so critical of the profits earned by Wall Street firms from restructuring the American economy. Reich regards producers of goods and services as the exclusive source of "real" wealth: their profits are legitimate because they derive from their efforts to deploy human and material resources to meet various private and public needs. Those who make their living from buying and selling these companies, however, are in a different moral category: paper entrepreneurs are predators, not creators of value.

Fairness at issue

As in the case of the oil-company profits of the 1970s, the extraordinary profits earned by many lawyers, investment bankers, managers, and stockholders during the 1980s also raise the issue of fairness. If restructuring is essentially a zero-sum game, as its critics allege, then the wealth accumulated by its beneficiaries must be counterbalanced by a reduction in wealth on the part of various other constituencies. The latter include not only the holders of various financial assets, but—more importantly from the point of view of the public—large numbers of employees. Paper entrepreneurship appears unfair to many Americans because it has allegedly benefited some by harming others—precisely the pre-capitalist definition of profiteering.

More generally, people's appraisal of the ethics of restructuring has to do with their perception of its contribution to economic effi-

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ciency and productivity. If, on balance, the dramatic changes in the governance of the American economy that took place during the 1980s made business less productive and efficient, then the profits earned from this activity are clearly not deserved; after all, the moral case for profits rests on the claim that they reward only those activities that increase society's overall material abundance. Alternatively, if paper entrepreneurship has, on balance, strengthened the long-term performance of the American economy, then its critics are as short-sighted as the medieval Church was in prohibiting the payment of interest on the grounds that "time belongs to God."

It is in this context that the legitimacy of the substantial fortune accumulated by Michael Milken should be viewed. Milken's defenders have pointed out that he raised a huge amount of money for companies through the sale of junk bonds, so that his compensation—though larger in 1988 than the profits of all but a handful of corporations—was not excessive. On the other hand, the amount of Milken's personal wealth was specifically referred to in the opening pages of the U.S. Attorney's indictment of him for violating the securities laws. Both the defense and the indictment miss the point, however; at issue is not the amount of money that Milken raised for others (or received himself), but the results produced by his labors.

If junk-bond financing helped many American corporations in accumulating funds needed for growth and expansion, then Milken's compensation was not unreasonable. But if junk-bond financing instead is little more than asset reshuffling at best (and asset stripping at worst), then Milken's compensation was not deserved—regardless of its amount. In this context, it is striking that the unethical corporate raider played by Michael Douglas in the movie *Wall Street* explicitly justifies his financial machinations in zero-sum terms. As he puts it, "Somebody wins and somebody loses. Money isn't gained, it's transferred. I create nothing. I own." It would be hard for anyone to come up with a clearer ethical indictment of restructuring.

Milken's violations of the law obviously deserved punishment. But the size of his gain per se is irrelevant to his guilt or innocence; in a capitalist system, making a lot of money is not a crime. It is true that if the sums made by Milken or the oil industry were insignificant, hardly anyone would care whether they were deserved. But many athletes, entertainers, and "real"

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entrepreneurs make substantial sums of money without their ethics being questioned by the public. And certainly during the 1980s many high-tech firms reported increases in profits comparable to those enjoyed by the oil industry during the previous decade—yet no one ever suggested subjecting them to a "windfall" profits tax.

In this context, it is also worth noting that many home owners in New York, California, and Washington, D.C., recently experienced dramatic increases in wealth due to their good fortune in having bought a home in the right place at the right time. Their profits were clearly no more—or less—deserved than those of the oil industry. And yet no one wanted to impose a "windfall home-profits tax" on them, although Henry George—who wrote before home ownership became widespread—advocated a tax on land for precisely this reason. And while housing is as critical a commodity as energy, no one outside of Berkeley, California, has seriously proposed establishing price controls on the sale of private homes. In assessing the ethics of business, the public evidently is not immune to calculations of its own material interests.

The distinction between the wealth accumulated by Bill Cosby and Apple Computer on the one hand, and Michael Milken and Exxon on the other, has no basis whatsoever in economic theory. Rather it demonstrates the hold that medieval economic thought continues to exercise on our collective moral imagination. Many people continue to believe that not all profits are created equal; some profits, they think, are more deserved than others.

Intentions and results

Adam Smith wrote in *The Wealth of Nations*:

> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.

These often-quoted lines capture the moral contradiction that lies at the heart of capitalism, in which morally dubious intentions combine to produce morally beneficial results. On the one hand, we do get the food that we need to survive—certainly no mean accomplishment in a world in which hunger was once commonplace. But on the other hand, the way we achieve this happy outcome is by paradoxically assuming that the providers of food are indifferent as to whether or not we are actually fed.

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If one judges the ethics of capitalism by its results, then the system deserves our unequivocal moral approbation. By any conceivable criterion, appealing to the self-interest of humanity "works": market economies have produced more wealth and greater economic security for more individuals than even their most ardent eighteenth- and nineteenth-century defenders thought possible. Capitalism's improvement in the quality of life is equally impressive. And no other economic system has proven even remotely so compatible with liberty and democracy.

However, the issue of motives constitutes the moral Achilles heel of capitalism. This is because of the appeal to self-interest that is at the core of a market economy. Notwithstanding capitalism's impressive results, many remain uncomfortable with a system in which economic action is motivated by selfishness.

Numerous scholars have tried to address this moral issue, without much success. In *The Passions and the Interests*, Albert Hirschman presents the ideas of a number of eighteenth- and nineteenth-century thinkers who argued for the ethical superiority of capitalist motives. They favorably contrasted a society in which people sought to maximize their interests with one in which people were ruled by their passions. As Montesquieu wrote in praising market economies, "[I]t is fortunate for men to be in a situation in which, though their passions may prompt them to be wicked, they have nevertheless an interest in not being so."

Now it may well be the case, to cite Samuel Johnson's famous epigram, that "there are few ways in which a man can be more innocently employed than in getting money." Certainly, when one compares the profit motive to the homicidal and genocidal passions that have motivated so much human behavior, the moral case for the profit motive is clear. John Maynard Keynes's judgment is surely correct: "It is better that a man should tyrannize over his bank balance than over his fellow citizens."

The last few centuries, however, have also demonstrated that far from calming men's passions, the pursuit of money can just as easily inflame them. Writing in *The Predator's Ball*, Connie Bruck portrays Michael Milken as a man driven less by the rational pursuit of self-interest than by megalomania; he is hardly the kind of individual that Montesquieu had in mind, one presumes.

Moreover, while the pursuit of material self-interest may be preferable to some motives, it is hardly superior to all of them. Much of the ethical appeal of socialism in the West has derived

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precisely from the moral superiority of the motives that it would substitute for the pursuit of material self-interest. It remains far more uplifting to exhort people to "love one another" than to "maximize utility," even though the latter may in fact be more socially beneficial.

Perhaps the most audacious effort to reconcile the motives of capitalists with the results of capitalism can be found in George Gilder's *Wealth and Poverty*. Gilder argues that capitalism begins not with material self-interest, but with "giving." Because the investor has no guarantee of return on his investment, his investment effectively constitutes a gift to the community. And like the gifts of the South Sea Islanders, it is given in the hope that it will be reciprocated. This argument has persuaded no one: as one of his numerous critics put it, Gilder's attempt to equate giving and investing is as likely to give philanthropy a bad name as capitalism a good one.

Yet at the same time, his analysis—perhaps unwittingly—also helps make sense of both the pervasiveness and widespread public appeal of corporate philanthropy. In fact, corporate philanthropy fits Gilder's model far better than does business investment. Philanthropy clearly involves giving, with no guarantee of return. Yet at the same time, the gifts given by corporations are commonly understood to be motivated not simply by altruism, but by the firms' long-term interests. They thus represent a kind of happy medium between a genuine gift, whose primary purpose is to improve the welfare of the recipient, and an investment, whose only purpose is to maximize the wealth of the investor.

Not surprisingly, corporate philanthropy has been criticized from both the left and the right. One set of critics has attacked it for failing to serve the objectives of the firm's stockholders: they argue that too much corporate philanthropy goes to organizations and institutions that are hostile to business. Another group of critics attacks it for precisely the opposite reason: they claim that its real purpose is to improve the image of the company, so that it is misleading to describe it as philanthropic. The paradox of corporate philanthropy is that the more the public perceives it as altruistic, the more effectively it serves the self-interest of the company that provides it.

Michael Novak's *The Spirit of Democratic Capitalism* represents another contemporary effort to improve the moral status of capitalism by redefining the motives that underlie it. Novak notes

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that "like prudence in Aristotelian thought, self-interest in democratic capitalist thought has an inferior reputation among moralists." He argues, however, that it is misleading to equate "self-interest" with greed or acquisitiveness. Rather, self-interest also encompasses "religious and moral interests, artistic and scientific interests, and interests in peace and justice," as well as concern for the well-being of one's family, friends, and country.

But while it is certainly true that much behavior in capitalist societies is self-interested in Novak's broader sense, this is decidedly not true of economic behavior proper. The predictive power of neoclassical economics rests precisely on the fact that consumers, investors, and employers do define their self-interest primarily—if not exclusively—in pecuniary terms. It is possible to deplore the extent to which our economic system rests on economic self-interest; it is not, however, appropriate to deny it.

Corporate social responsibility

The doctrine of corporate social responsibility can also be understood as part of the ongoing effort to reconcile the intentions and results of capitalism. It does this in part by fudging the issue: no small part of the nearly universal appeal of corporate social responsibility rests on the doctrine's ambiguity. Proponents of corporate social responsibility do not deny the legitimacy of the profit motive; instead they redefine the profit motive to encompass other, more public-spirited purposes. The notion of the "corporate conscience" represents an attempt to humanize the firm, to endow its managers with a range of motivations that transcend the selfish pursuit of wealth. Likewise, speaking of "enlightened" self-interest is clearly meant to soften self-interest, which itself is employed as a euphemism for selfishness.

But the term "enlightened self-interest" begs a critical issue. What happens when a manager's concern for the welfare of society conflicts with the material interests of his company's shareholders? Supporters of the free market believe that society is best served when executives try to maximize the interests of their shareholders. Thus an important conservative criticism of corporate social responsibility is precisely that it gives businessmen "credit" for serving society only when they are engaged in activities that are not primarily motivated by shareholder interests—thus undermining a central moral *raison d'être* of a market economy.

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The response of the advocates of corporate responsibility is to deny that there is a tension between intentions and results: common to virtually every exposition of the doctrine of corporate social responsibility is the belief that in the long run the interests of "society" and of business converge, so that those firms that intend to do good also wind up doing well, and vice versa.

This is also the position of the movement for socially responsible investment: much of the popularity of "socially responsible" investment vehicles rests on their claim to resolve the tension between "bad" intentions and "good" results that characterizes a market economy, by enabling investors to hold on to their good intentions without sacrificing their rate of return. Much of the claim for the need to instruct businessmen in ethics rests on a similar social vision.

Appealing as this position evidently is, unfortunately it is not terribly persuasive. If corporate social responsibility amounts to nothing more than enlightened self-interest, why would anyone need to devote special effort to understand it or to urge others to pursue it? For that matter, what would be the point of teaching ethics to present or future managers? Why not simply teach them how to become more intelligent or sophisticated profit maximizers? Likewise, if socially responsible funds offer their investors a market rate of returns, then why is it praiseworthy to invest in them?

The fact that so much effort is devoted to preaching to both executives and investors about their social and moral responsibilities suggests that we are still uncomfortable with an economic system that relies so heavily on the motive of selfishness to achieve its goals—however laudable they may be. The moral paradox that Adam Smith so insightfully described more than two centuries ago remains with us; we are no closer than he to resolving it.

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Family decline in the Swedish welfare state

DAVID POPENOE

SWEDEN HAS much to commend it. Its cities are clean, its countryside beautiful, and its people healthy and long-lived. With no poverty, no slums, and relatively little violent crime and drug abuse, Sweden has to a remarkable degree minimized the extent to which the economic luck of the draw determines the quality of people's lives.

Yet there is one thing about growing up in Sweden today that should give pause even to those sympathetic to the welfare state. There is a strong likelihood that the family has grown weaker there than anywhere else in the world. What has happened to the family in Sweden over the past few decades lends strong support to the proposition that as the welfare state advances, the family declines. If unchecked, this decline could eventually undermine the very welfare that the state seeks to promote.

The modern welfare state was founded with the goal of helping families to function better as decentralized welfare agencies. It sought to strengthen families, not to weaken them. Over time, however, welfare states have increasingly tended not so much to assist families as to replace them; people's dependence on the state

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has grown while their reliance on families has weakened. In a classic illustration of the law of unintended consequences, the family under the welfare state is gradually losing both the ability and the will to care for itself.

The impediment to social welfare presented by family decline is often cast in economic terms. If the welfare state is to fulfill its goals, as Danish welfare official Bent Rold Andersen has stressed, its citizens must refrain from exploiting its services to the fullest. There is no economical way for the state to take over all the day-to-day welfare services that the family has long provided its members. Yet in what American social-welfare expert Neil Gilbert has called the "helping hand dilemma," families in the welfare state are penalized by losing the benefits of public care when they provide their own care—whereas they are rewarded with public care when they fail to look after themselves. This is a major component of what some see as the coming economic crisis of the welfare state.

Even more troubling, however, is the possibility of a social crisis. The family in the welfare state may become so weak that it is unable or unwilling to provide the kind of personalized child rearing that it alone can offer.

Marriage and divorce rates

The Swedish marriage rate is now the lowest in the industrialized world, and the average age at first marriage is probably the highest. The rate of nonmarital cohabitation, or consensual unions, outranks that of all other advanced nations; such unions, rather than being a mere prelude to marriage (as is more often the case in the United States now), have become a parallel institution alongside legal marriage. About 25 percent of all couples in Sweden today are living in consensual unions (up from 1 percent in 1960), compared with about 5 percent in the United States. The growth of nonmarital cohabitation among childbearing couples has given Sweden one of the highest percentages of children born out of wedlock in the industrial world—over 50 percent of all children, compared with about 22 percent in the United States. It is important to add, however, that—unlike the situation in the United States—very few of these children are born to an "unattached" mother.

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The rate of family breakdown in Sweden is more difficult to measure. The Swedish divorce rate, although higher than that of most other European societies, is lower than the American divorce rate. By one estimate, focusing on the cohort born in 1945 and projecting the high divorce rates of the last few decades, the proportion of marriages expected to end in divorce in Sweden is 36 percent, compared with 42 percent in the United States. But the high Swedish rate is surprising from one perspective: many of the factors traditionally associated with divorce in the United States—such as brief courtships and early marriages, teen pregnancies, poverty and income instability, interethnic and interfaith unions, and high residential mobility—are mitigated in Sweden.

The Swedish experience has effectively put to rest the old notion that so-called "trial marriages" would have the desirable effect of cutting the divorce rate. A recent study of Swedish women conducted by the U.S. National Bureau of Economic Research, for example, determined that couples who lived together before marriage had a divorce rate nearly 80 percent higher than those that did not.

In order to divorce one must first marry, and that is precisely what Swedes in large numbers are not doing. The divorce rate, therefore, tells us less and less about the total break-up rate of couples; one must also know the break-up rate of couples who are not married. Such data are hard to come by. To control for casual cohabitation, one Swedish study compared the break-up rates of both married and unmarried couples with at least one child. The dissolution rate of the unmarried couples was nearly three times that of the married couples. It is a reasonable conclusion, based on all available data, that the true "divorce" rate in Sweden—one that takes into account the break-ups of both consensual unions and marriages—may surpass that of the United States and be the highest in the Western world.

This family-dissolution rate is reflected in Sweden's high percentage of single-parent families. In 1980 single-parent families amounted to 18 percent of all households with children, compared with 17 percent among American whites. (The total U.S. percentage was slightly higher, because 52 percent of black families had only one parent.) Loosely related to the single-parent family rate are two other rates in which Sweden now leads the world: it has

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the smallest average household size (about 2.2 persons) and the highest percentage of adults living alone (about 20 percent).

A waning social institution

Many of these statistical indicators of the decline of marriage, the increase of family dissolution, and the rise of nonfamily households point to real changes in the family that are commonly associated with its weakening as a social institution. The following family changes, though harder to measure, support the proposition that the family has declined further in Sweden than in any other Western industrialized nation:

1. *Parental authority.* In Sweden, authority over traditional family concerns has shifted heavily to the state. To give two examples: Sweden became the first nation to pass laws forbidding parents to strike their children, and social workers there have been able to take children away from parents for foster care more easily than in other countries.

2. *Economic dependence of children on their parents.* The economic ties that bind children to their parents elsewhere have largely been supplanted in Sweden by ties between children and the state. For instance, in addition to free or low-cost medical care, public transportation, and education, Sweden virtually guarantees a part-time job to any youth age sixteen or over.

3. *Economic interdependence of spouses.* Swedish spouses need have almost no mutual economic obligations. Swedish policy is that each non-handicapped adult is responsible for his or her own economic well-being. In the early 1970s Sweden did away with the joint income-tax return, and it now permits only individual returns.

4. *Economic care for the elderly.* Swedish families need not provide economic care for their aged members. Sweden probably has the world's lowest percentage of households with extended families.

5. *"Familism" as a cultural value.* Familism refers to the belief in a strong sense of family identification and loyalty, mutual assistance among family members, and a concern for the perpetuation of the family unit; the subordination of the interests and personality of individual family members to the interests and welfare of the family group. Still a strong value in many other advanced nations, familism is remarkably weak in Swe-

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den. Swedish political discussion, for example, seldom focuses on building strong, self-sufficient families. Swedish family legislation is instead almost exclusively concerned with the situation of the individual family member.

The family, then, has probably become weaker in Sweden than anywhere else—certainly among advanced Western nations. Individual family members are the most autonomous and least bound by the group, and the group as a whole is least cohesive. The family carries out fewer of its traditional social functions; these have shifted to other institutions, especially the state and its agencies, which have correspondingly gained in power and authority. The family is smallest in size, least stable, and has the shortest life span; people are therefore family members for the smallest percentage of their lives. In sum, Swedes have apparently become the least willing to invest time, money, and energy in family life. Instead, the main investments are increasingly made in the individual, not in the family unit.

The roots of family decline

Why should the institution of the family have declined further in Sweden than anywhere else? For welfare-state advocates the answer to this question is troubling. Five factors seem strongly associated with Sweden's advanced family decline: the culture of self-fulfillment, economic security, gender-role change, the ideology of the welfare state, and secularism. The part played by economic security and gender-role change is particularly dismaying, inasmuch as they are highly favored policy goals in most industrialized societies. Nevertheless, their role in fostering family decline is clearly implicated by many studies.

Virtually all of the family changes occurring in Sweden—such as the decline in marriage and the high family-dissolution rate—have been evident in every other advanced society in the past few decades. Forces that operate universally appear to have impelled change at a particularly rapid pace in Sweden.

Given the limitations of the social sciences, we will probably never know precisely what forces caused families in advanced societies to undergo the dramatic changes that began in the 1960s. But agreement among family experts is growing that if any one force is to be given causal priority, it is the new cultural emphasis on self-fulfillment—a value that logically opposes familism. Per-

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sons motivated by self-fulfillment pursue their own personal interests, whereas persons motivated by familism pursue the collective interests of the family as an institution.

There is no satisfactory way to determine if self-fulfillment per se has become a stronger cultural value in Sweden than elsewhere. But we do have solid information about two other trends that are closely associated with self-fulfillment—growing economic security and changing gender roles.

The economic irrelevance of the family

For most of human history the family was an economic work unit. An economic bond held families together, and ties to a family were ordinarily necessary for sheer physical survival. The changing economic conditions in advanced societies—characterized as they are by widespread personal affluence, welfare safety nets, and the redistribution of income—have seriously attenuated the economic bond of the family. With the growth of personal economic security, the economic bond has largely been replaced by affection.

Compared with economic need, affection is a notoriously fragile basis for family solidarity. In Sweden today it is often financially advisable today to divorce—or better yet, not to get married in the first place, and certainly not to have any children. Thus affluence and economic security have brought higher divorce and lower marriage rates, and have helped to generate low birth rates that are unprecedented.

Personal economic security is probably greater in Sweden than in any other society, and this is due largely to the welfare state. No political goal of the welfare state has loomed larger. The Swedish government takes the view that if the family cannot or does not want to provide for its members, for whatever reason, the government will assume the burden.

On economic grounds alone, therefore, a Swede has little reason to hold a family together, or even to be part of a family. If children and their caretaker parent are left economically disadvantaged through family break-up, for example, the government steps in. The absent parent is forced to pay child support; when this is not possible, the government provides it. The government grants many other subsidies as well, such as for housing, and it has been estimated that the divorced mother in Sweden—in stark contrast to

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her American counterpart—ends up with about 90 percent of her predivorce standard of living.

If Swedish families don't wish to assume the economic burden of caring for their aging parents—and almost all families do not—the government assumes it for them. If the aged or infirm want to live alone and have no one to care for them, the government provides a homemaker service. Because families below the median income level cannot provide for their members as generously as wealthier families, the government redistributes income from wealthier families to poorer ones.

The result of such policies is that Swedes have become much less economically dependent on their families, and much more dependent on their state. Rather than having to build up and then draw on a pool of family resources over time to meet the needs of family members, families regularly turn over to the state a large portion of their resources in the form of taxes. Resources taken by the state at certain stages of the family's life cycle are then typically given back at other stages.

These economic and social shifts include substantial changes in men's and women's roles. In recent decades, gender roles within families have been changing dramatically, especially with the movement of women—who tend no longer to be full-time homemakers—into the labor market. While undoubtedly bringing many benefits to women, these changes have contributed to family instability in two ways: by reducing the economic dependence of wives on their husbands (that is, by giving women more economic security) and by making marital roles ambiguous. Far from incorporating a set of cultural role prescriptions that is taken for granted, marriage has now become a lifelong bargaining session in which wives and husbands must continually negotiate their roles.

The welfare state has put Sweden in the lead with respect to gender equality. No social goal has been more important to Swedish welfare-state officials in recent decades than the achievement of full equality for women. Although most Swedish women would stress that they have hardly reached full equality with men, by many indicators the Swedish welfare state has been remarkably successful in achieving such equality: Sweden today has probably the smallest percentage of full-time housewives—about 10 percent—of any Western nation, one of the highest percentages of working-age women in the labor force (77 percent in

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1983, compared with 62 percent in the U.S.), and the closest correspondence between women's and men's earnings (Swedish women earn about 90 percent as much as Swedish men, whereas the comparable figure is 70 percent in the U.S.).

Welfare-state ideology

Economic security and gender equality are both established political goals of modern states, goals that appear to weaken families. They are accentuated by, but by no means unique to, the welfare state. In addition to these political goals, the welfare state nurtures a distinctive and pervasive cultural mentality, or ideology, that has antifamily overtones.

Two of the central values of welfare-state ideology are professionalism in human services and egalitarianism in society. These values are strongly held and promoted by the legion of workers who staff the welfare-state bureaucracy. But the family is neither professional nor egalitarian. The cultural dominance of these two values, therefore, poses a special threat to the interests of the family as a unit (as distinct from the interests of individual family members).

Modern professionalism has achieved much by increasing knowledge and refining techniques. But according to many close observers, the great emphasis placed on professional care in Sweden has enfeebled both the confidence and the motivation of "amateur" family members in providing their own care. In the culture of the welfare state, it becomes all too easy for family members to believe that care is best provided by—and should be provided by—government-employed professionals. The argument is that professionals are trained to give the best possible care, and that taxes are paid precisely to purchase such professional care.

To make matters worse, some welfare professionals come to believe that professional care is somehow inherently superior to the care provided by families, and should be substituted for it. The original welfare-state goal—that families should be helped rather than replaced—increasingly is undermined. This is in part the old problem of goal displacement, in which members of an organization become more concerned with perpetuating their organization (and their positions in it) than with meeting its original goals. In this respect the welfare state is no different from other organizations.

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Central to the ideology of the welfare state is the belief that care provided by families is not only unprofessional, but also highly inegalitarian in its distribution. Because the family has long limited economic and social equality, it is common for the more dedicated egalitarians among welfare workers to feel ambivalence or even hostility toward it—and especially toward the traditional, patriarchal, bourgeois family.

The bourgeois family is seen as a major root of social problems. In order to destroy it, some welfare-state ideologues are eager to promote alternatives not only to the bourgeois family but to the nuclear family, and to turn over most child rearing to the state.

Adherence to such a radical, individualistic egalitarianism prohibits the state from promoting those family values and arrangements that may in fact be socially preferable. Take, for example, the statement of one Swedish official: "You can no longer speak publicly in Sweden about nuclear families being 'good' because there are now many single parents, and you don't want to make them feel bad." In the same sense, the government cannot reward families that stay together, because this would be regarded as unfair to families that break up. Thus its commitment to equality impels the welfare state to mute its voice on a range of traditional moral issues.

But the welfare state's single-minded pursuit of egalitarianism has perhaps most harmed families by making an implicit pact between the individual and the welfare bureaucracy that excludes the family unit. It is the individual, not the family, who is the welfare state's client and who has the national identification number. Rather than aiming to strengthen the family as a unit, Swedish family policy focuses almost exclusively on helping the individual family member. In the provision of economic and other welfare benefits to each individual, the concerns of the family as a unit—that it be strong, stable, and relatively self-sufficient—are consistently overlooked.

Finally, the lessening of religious belief should be mentioned as another factor associated with family decline. As abundant research in the United States has shown, people who are strongly religious tend to be more familistic and to have a lower divorce rate. Sweden has secularized with startling rapidity in the last half-century, and today is probably the world's most secular society.

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Less than 5 percent of Swedes regularly attend religious services, and only 50 percent proclaim a belief in God.

Secularism has never been an official policy of the Swedish welfare state. But the ideological climate of the welfare state, with its antipathy to tradition, can hardly be said to be conducive to religious life.

The high costs of family breakdown

Why should modern societies be concerned about a high family-breakdown rate? If Swedes are healthier and more economically secure than ever before, why should Sweden's weakening family system be cast as a problem? If the state is able successfully to pick up the pieces that are left in the wake of family decline, and indeed to improve people's material lot in the process, why is the declining family worrisome? Answers to these questions lie in the social costs that stem from the weakening and the dissolution of families. These costs lie mainly in the economy and in child rearing.

For economic reasons, the welfare state depends heavily on families that can take care of their own, that don't make unnecessary demands on the public purse, and that recognize their responsibilities as well as their rights. But once the welfare state is fully established, such families, unfortunately, appear to become increasingly scarce. The original hope of the welfare state—that families strengthened by state assistance would be better able voluntarily to care for their members—has to some extent been dashed. We have seen this problem in the United States via the "welfare crisis"—growing welfare dependency and skyrocketing welfare costs. Writ large, this becomes the economic crisis of the welfare state.

Welfare-state leaders in European nations, too, have become worried. The Swedish government today, in fact, is in the throes of pruning its welfare-state apparatus, cutting taxes, and asking more of its citizens. Belief that the welfare state is too prominent is now widespread in Sweden, and approval of the long-dominant Social Democratic government—as measured by opinion polls—has fallen to its lowest point in many years, with only about a third of the citizenry indicating support.

The bankruptcy of the welfare state would, of course, be calamitous; but weakened families are unlikely to produce it in the im-

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mediately foreseeable future. Such families do, however, cause serious and immediate damage to children. Adults can pick and choose their family ties, but children cannot; adults may improve their lives through family dissolution, but children usually do not; adults can live in single-person households, but children cannot. Only the most hardened antifamily cynic can really believe that the quality of family life is unimportant for children. Indeed, most people continue to believe that an emotionally rich and secure family life is every child's birthright.

There is no way to know whether parenting has become worse in Sweden in recent years. What can be discerned is a changing social ecology of child rearing that is associated with family decline. Most importantly, parents dissolve their relationships much more frequently than they did before, and children are more often raised by a single parent. The chances that a Swedish child will live continuously to age eighteen with both biological parents is now only approximately one in two.

Even without parental break-up, however, important changes in child rearing are occurring. With each passing year, Sweden is drifting further away from the conditions that make for good child rearing. Thus there are fewer families that do many things together (such as eating meals), have many routines and traditions, and provide much interaction between adults and children; children have less regular contact with relatives, neighbors, and the adult world of work; a child can seldom be sure that his parents' marriage will endure; one is less likely to encounter rich family subcultures imbuing the traditional values of responsibility, cooperation, and sharing.

Adults in Sweden no longer need children in their lives, at least for economic reasons. But in social and psychological terms, children need adults as much as ever. Not just any adults, moreover, but parents who are motivated, in the words of psychologist Urie Bronfenbrenner, to provide "enduring, irrational, emotional involvement." In this sense, child rearing is an aspect of human life that the modern propensity to increase efficiency and rationalize procedures cannot improve; it is a cottage industry. What is still required is an abundance of time, patience, and love on the part of caring parents; a bureaucracy cannot provide this. In short, children need strong families.

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What ill effects has the changing social ecology of child rearing brought to Sweden? The clearest evidence of a problem is in the data on juvenile delinquency. Swedish delinquency rates rose abruptly during the years of rapid family change and today are among the highest in northern Europe (although the offenses are mostly minor and seldom involve violence). There is also much discussion and some hard data concerning a considerable increase in angst among Swedish youth, with such related problems as depression, suicide, and alcoholism. For the real test, however, we must await the coming to maturity of today's generation of young Swedes.

What is to be done?

Could the United States somehow incorporate the best of Swedish family and welfare policies while avoiding damage to the institution of the family? Many American conservatives believe not; they argue that the welfare state constitutes a single sociopolitical package whose structures cannot be disentangled, and that America should continue to rely on the market and not become more of a welfare state.

But the market can be just as damaging to the family as the state. This helps account for the fact that the United States and Sweden—the Western world's welfare laggard and welfare leader, respectively—have the world's highest family-dissolution rates. It makes little sense, then, for the United States to think that it is saving the family by refusing to expand its comparatively meager welfare efforts. A middle ground should be sought between state and market; more generous parental-leave policies, for example, would allow parents to integrate work and family more successfully. Reducing the economic uncertainties of life in the United States—without generating the excessive dependence on government found in Sweden—would help the family much more than hurt it. Family conditions in this country have deteriorated so much, in fact, and we are so far behind other nations in providing such basic welfare programs for children as health care and preschool education, that the American adoption and expansion of such programs seem both necessary and inevitable.

In the end, however, family policies—important though they are—remain inadequate to deal with the most serious family problem of the modern world. Public services and facilities alone can-

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not keep families whole—only people's values can. But values are fragile and must be nourished culturally. Rather than relying on welfare programs to halt family decline, we will instead have to seek more profound ways to mend the torn cultural fabric of modern society.

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How housing regulations cause homelessness

WILLIAM TUCKER

THE PROBLEM of homelessness in the 1980s has puzzled liberals and conservatives alike. Both have tended to fit the problem into their preconceived views, without looking at what is new and different about the phenomenon.

For liberals, the issue has been fairly straightforward. Homelessness, they say, stems from a lack of government effort and compassion. Reacting almost reflexively, liberals have blamed homelessness on federal spending cuts and the heartlessness of the Reagan administration. The most commonly cited figure is that budget authorizations for the Department of Housing and Urban Development (HUD) were cut 75 percent in the Reagan years, from $32 billion in 1981 to $8 billion in 1988. Everything else is presumably self-explanatory. This compelling logic has even been repeated in the *Wall Street Journal*.

Conservatives, on the other hand, have taken two approaches. Either they deny the problem's existence or they assert that homelessness is almost always the result of personal pathologies. On the first count, it has often been argued (as in Martin Morse Wooster's June 1987 *Reason* article, "The Homeless: An Adman's Dream")

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that homelessness is really no worse than it ever was, but that the problem has been exaggerated to justify increases in government spending. On the other, conservatives have also argued that most of the homeless are insane, alcoholics, or drug addicts, and that their personal failings make it impossible for them to find housing, even when it is available.

Unpersuasive explanations

But these arguments, whether liberal or conservative, do not really hold up under close scrutiny.

The most obviously flawed explanation lies in the figures that seem to indicate a massive federal cutback in housing assistance. There has been no such cutback. Federal low-income housing assistance actually *increased* from $5.7 billion in 1980 to $13.8 billion in 1988. The number of households receiving low-income housing assistance also rose, going from 3.1 million to 4.2 million during the same period.

The commonly cited "cutback" from $32 billion to $8 billion is the figure for HUD's future authorizations. This figure has nothing to do with actual housing assistance, however, since it only indicates the amount of money that Congress authorized HUD to spend in the future. These authorizations often run forty years in advance—and much of the money is never spent anyway.

The reason for this cutback has been the changeover from a program centered around public-housing construction to one centered around housing vouchers. When Congress authorizes a unit of new public housing, it must include all future mortgage payments, running decades ahead. In authorizing a housing voucher, Congress pledges money for only five years—the lifetime of the voucher.

In addition, vouchers provide the same housing at only half the price. A unit of public housing costs the federal government $8,000 a year, while a voucher costs only $4,000. Thus, twice as many people can be reached with the same amount of money. This is why HUD has been able to extend housing aid to more low-income people without an equivalent increase in spending.

But if the liberal argument about "spending cuts" is based largely on a misunderstanding of the budgetary process, the conservative argument that homelessness has not really increased at all seems equally ill-founded.

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There were indeed homeless people long before 1980, and their numbers have always been difficult to count. But it is hard to ignore the almost unanimous reports from shelter providers (many of them old-line conservative church groups) that the problem has been getting steadily worse since 1980. The anecdotal evidence is also abundant. Anyone who has walked the streets of New York or Washington over the last decade knows that there are more beggars sitting on the sidewalks and sleeping on park benches than there were ten years ago.

Although many of the homeless are obviously alcoholics, drug addicts, and people who are clinically insane, large numbers appear only to be down on their luck. The most widely accepted statistical breakdown was first proposed in a 1988 Urban Institute paper: "Feeding the Homeless: Does the Prepared Meals Provision Help?" According to authors Martha Burt and Barbara Cohen, one-third of the homeless can be categorized as released mental patients, one-third as alcoholics and drug abusers, and one-third as people who are homeless for purely economic reasons.

Thus the component of homeless people who are not affected by personal pathologies is large. It should also be noted that being a chronic alcoholic or drug addict does not condemn a person to living in the streets. Even "winos" or "stumblebums" were able to find minimal housing in the past.

And so paradoxes remain. How can we have such a large homeless population at a time when rental vacancy rates are near postwar highs? How can there be plenty of housing but not enough "affordable housing"? In short, how can there be scarcity in the housing market when so much housing is still available?

Variations among housing markets

These paradoxes can be resolved when we recognize that the housing market is not a national market but is instead the sum of many regional and local markets. Rental vacancy rates probably serve as the best measure of the availability of affordable housing, since most poor people rent. These rates vary widely from city to city. During the 1980s, rental vacancy rates in Dallas and Houston were rarely below 12 percent—a figure that is about twice what is considered a normal vacancy rate. At the same time, housing has been absurdly scarce in other cities. New York has not had vacancy rates over 3 percent since 1972. San Francisco had nor-

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mal vacancy rates during the 1970s, but they plunged to 2 percent during the 1980s, where they remain today.

Since the poor tend to be limited in their mobility, vacancy rates significantly affect their ability to find housing. Although southern and southwestern cities claim to receive a regular seasonal migration of homeless people during the winter months, there is little evidence that people are moving from city to city to find housing. Other factors, like work opportunities, proximity to family members, and sheer inertia, seem to dominate people's choice of locale.

What should be far more mobile is the capital that builds housing and has created such a superabundance in specific cities. If it is difficult to find tenants for new apartments in Dallas and Phoenix, why don't builders shift to Boston or San Francisco, where housing is desperately needed?

Once we start asking this question, the impediments in the housing market suddenly become visible. It is obviously not equally easy to build housing in all cities. In particular, the local regulatory climate has a tremendous impact on the housing supply. Dallas and Houston are free-wheeling, market-oriented cities with little or no zoning regulation and negligible antigrowth sentiment. They have been able to keep abreast of housing demand even as their populations grew rapidly. Boston and San Francisco, on the other hand, have highly regulated housing markets. Both are surrounded by tight rings of exclusionary suburbs, where zoning and growth-control sentiment make new construction extremely difficult. In addition, both have adopted rent control as a way of "solving" local housing shortages. As a result, both have extremely high housing prices and extremely tight rental markets. The median home price in each approaches $200,000, while in Dallas and Phoenix the median price is below the national median of $88,000.

Thus it makes little sense to talk about a national housing market's effect on homelessness. Local markets vary widely, and municipal regulation seems to be the deciding factor.

This is what has misled both liberals and conservatives. Conservatives look at the national superabundance of housing and conclude that local problems do not exist. Liberals look at local shortages and conclude that there is a national housing problem. In fact, housing shortages are a local problem created by local regulation, which is the work of local municipal governments.

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It is not surprising, then, to find that homelessness varies widely from city to city, with local housing policies once again the decisive factor. These conclusions are supported by research that I conducted in 1988: I calculated comparative rates of per-capita homelessness for various cities, using the homelessness figures for the largest thirty-five cities investigated in the 1984 *Report to the Secretary of Housing and Urban Development on the Homeless and Emergency Shelters*. I also added fifteen other large cities that were not included in the initial HUD survey. I then subjected the comparative rates of homelessness to regression analysis, in order to look for possible associations with other factors.

Among the independent variables that I considered were the local unemployment rate, the poverty rate, city size, the availability of public housing, the median rent, annual mean temperature, annual rainfall, the size of the minority population, population growth over the past fifteen years, the rental vacancy rate, the presence or absence of rent control, and the median home price in the metropolitan area surrounding each city.

Of all these variables, only four showed a significant correlation: the median home price, the rental vacancy rate, the presence of rent control, and the size of the minority population. The first three formed an overlapping cluster, with the median home price being the strongest predictor (accounting for around 42 percent of the variation, with a chance of error of less than .001 percent). The size of the minority population added about another 10 percent. The total predictive value for both factors was 51 percent, with a margin of error below .00001 percent.

When combined on a single graph (see next page), the figures for the forty cities for which all of the relevant data are available show a strong trendline for median home prices; the cities with rent control are predominantly clustered in the top right-hand quadrant. Of the four major cities with minority populations of more than 60 percent, the two with rent control (Newark and Washington) are right on the trendline, while the two without it (Miami and Detroit) are the sole "outliers"—cities whose rates of homelessness do not seem to correspond with their positions in correlation with median home prices.

Altogether, these data suggest that housing variables are a better indicator of homelessness than are the traditional measures of unemployment, poverty, and the relative size of a city's public housing stock. High median home prices are usually found in

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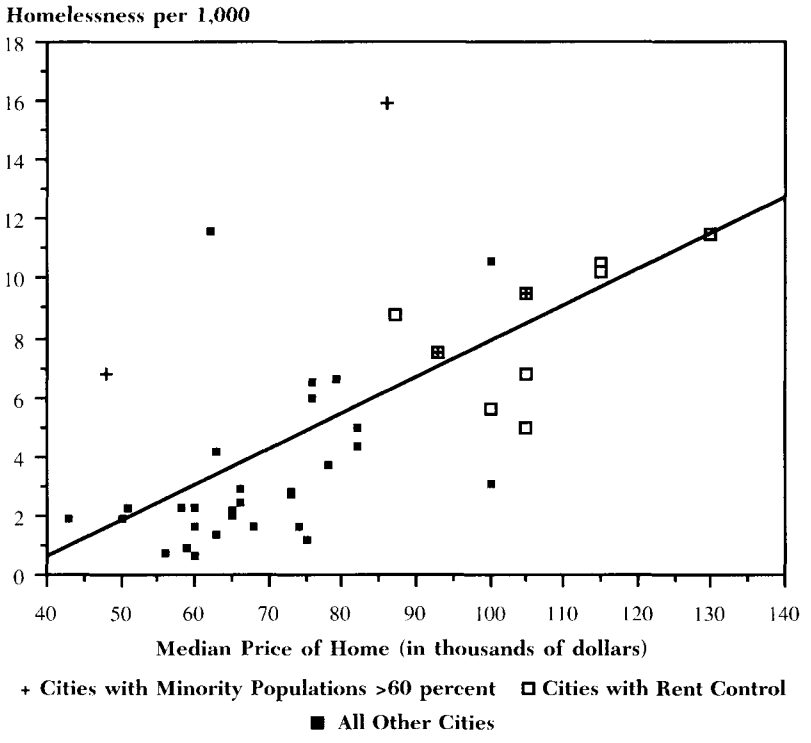
cities with strict zoning ordinances and a strong no-growth effort. Cities with a tight ring of exclusionary suburbs (such as Boston, New York, Washington, San Francisco, and Los Angeles) have high home prices. Strangely enough, most have also adopted rent control.

Homelessness in Forty American Cities, Correlated with Rent Control, Size of Minority Population, and Median Home Price

(R=.649 P<.0001)



At the same time, rent control is closely correlated with low rental vacancy rates. Every city in the country with rent control (except Los Angeles) has a vacancy rate below 4 percent, while the average for cities without rent control is over 8 percent.

When viewed historically, these low vacancy rates are obviously the result of rent control rather than its cause. When most of these cities adopted rent control in the 1970s, all had vacancy rates around the norm of 6 percent. Rather than being spurred by low vacancies, the rent-control ordinances that swept the East and West Coasts during the 1970s were advertised as a response to

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inflation. The housing shortages came later. (New York, on the other hand, has had rent control since 1943, when it was imposed as part of World War II price controls. Vacancy rates stood at 10 percent in 1940, but have never been above 5 percent since the war ended; they have been below 3 percent since the late 1960s.)

Given these facts, the most plausible explanation of the relation of homelessness to high median home prices, low rental vacancies, and the presence of rent control seems to be what might be called "intense housing regulation." Many cities, such as San Francisco, Berkeley, and Santa Monica, have adopted rent control as part of municipal efforts to slow growth and stop development. These efforts are often aimed against new housing construction, particularly of apartments and rentals.

Since most communities that adopt no-growth ordinances usually like to think of themselves as liberal-minded, they do not like to admit to limiting housing opportunities for low-income people. So they try to compensate by imposing rent control, which they claim "protects" tenants from rising rents.

But of course rent control makes things only worse, by causing vacancy rates to decline and apartments to become much harder to find. The words of Assa Lindbeck, the Swedish socialist (and now chairman of the Nobel Prize Committee for Economics) can hardly be improved upon:

> The effects of rent control have in fact been exactly what can be predicted from the simplest type of supply-and-demand analysis—"housing shortage" (excess demand for housing), black markets, privileges for those who happen to have a contract for a rent-controlled apartment, nepotism in the distribution of the available apartments, difficulties in getting apartments for families with children, and, in many places, deterioration of the housing stock. In fact, next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities.

Attacks on growth and SRO's

Perhaps the best place to see this syndrome at work is in the San Francisco area, which has some of the country's most intense and innovative housing regulation and is also generally considered to be the center of some of the nation's worst homelessness.

It may be hard to believe, but housing prices in California in 1970 were no higher than the national average—even though the state experienced astonishing population growth during the 1950s

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and 1960s. It was not until the wave of environmental regulation and no-growth sentiment emerged in the 1970s that housing prices began to climb. Throughout California, the increase in home prices has consistently outpaced the national average over the last two decades. By 1988, the median price for a home stood at $158,000 there, in contrast to the nationwide figure of $88,000. In the highly regulated San Francisco Bay area, the median was $178,000, more than twice the national median.

California also experienced a wave of rent-control ordinances in the 1970s. Berkeley adopted rent control in 1971, shortly after imposing a "neighborhood preservation ordinance" that all but prohibited new development. The ordinance was eventually overturned in the California courts in 1975. Then in 1978, Howard Jarvis made an ill-fated promise that Proposition 13 would lower rents by reducing property taxes. When rent reductions failed to materialize, angry tenants in more than a dozen cities retaliated by adopting rent control.

As a result, housing in highly regulated metropolitan regions around San Francisco, San Jose, and Los Angeles has become very scarce. At the same time, homelessness has become a pronounced problem. Santa Monica, which imposed rent control in 1979 as part of an intense antidevelopment campaign, has become the homelessness capital of the West Coast.

Once growth control, tight zoning, and rent control are in place, even middle-class people may have trouble finding housing. A municipality in effect becomes a closed community, open only to its current residents (who either experience remarkable run-ups in the value of their homes or live at rents far below market) and people with strong inside connections. Mark Kann's 1986 book *Middle Class Radicalism in Santa Monica*, which generally praised the city's housing policies, speaks of a "woman who tried to get a Santa Monica apartment for more than a year without success[;] ... she broke into the city, finally, by marrying someone who already had an apartment there."

No-growth ordinances and rent control have not, of course, been embraced everywhere; but city administrations have often produced comparable results through intense housing-code enforcement, designed to drive "undesirable" housing (and the people who live in it) out of their jurisdictions.

In *New Homeless and Old: Community and the Skid Row Hotel*, Charles Hoch and Robert Slayton have traced the disappearance of

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the single-room occupancy (SRO) and "cubicle" hotels that once provided cheap housing to thousands of marginal tenants in downtown Chicago. Over 8,000 of these hotel rooms—still available to Chicago's low-income transients in 1963—have disappeared, leaving barely 2,000 today. These lost accommodations were all supplied by the private market. Although remarkably inexpensive (often costing only $2 a night), these rooms offered residents exactly what they wanted—security and privacy. Most of the hotels had elaborate security systems, with desk clerks screening visitors and protecting residents from unwanted ones. In addition, the cheap hotels were usually convenient to stores and public transportation, allowing low-income residents with few family connections to lead frugal but relatively dignified lives.

What happened to these old SRO hotels? Almost without exception, they became the target of urban-renewal efforts and municipal campaigns to "clean up downtown." Intense building-code enforcement and outright condemnation drove most of them out of business. Strict zoning ordinances have since made it virtually impossible to build replacements. Hoch and Slayton conclude:

> We do not believe that the demise of Skid Row and the SRO hotels was the inevitable result of market forces, or that Skid Row residents embodied peculiar social and psychological characteristics that produced deviant and pathological social behavior.... [Instead,] this loss was the result of decades of antagonism from civic and business leaders, legitimated from the 1950s on by social scientists, and incorporated into dramatic change-oriented programs like urban renewal.

Nor have these policies abated today. Despite the hue and cry over the loss of SRO hotels, their replacement is still generally forbidden by zoning ordinances. In Los Angeles, there is a movement afoot to close down SRO hotels—even those subsidized by the city government—because they are not built to withstand earthquakes. Peter Smith, president of the New York City Partnership for the Homeless, comments: "It's essentially illegal for private developers to build SRO hotels in New York anymore."

Restricting development

What is causing homelessness, then, is the familiar phenomenon of government regulation. This regulation tends to escape the attention of the public and the enthusiasts of deregulation, because it is done at the local rather than the state or national level.

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The truth is that cities and towns do not always welcome new development. At bottom, even the most enthusiastic advocates of progress would often prefer to see their own neighborhoods remain just as they are. People will usually settle for higher-priced housing, because it raises the value of their own homes; but few want tenements, rentals, or other forms of "low-income" housing.

Through regulation, most cities and towns hold a tight rein on their housing markets. Suburbs are particularly exclusionary, zoning out everything but high-priced single-family homes (which require large lot sizes), and prohibiting the rental of rooms or apartments. Cities themselves, although sometimes offering rhetorical welcomes, often play the same exclusionary games.

An example can be seen in Takoma Park, Maryland, a nineteenth-century "streetcar suburb" of Washington, D.C., which until recently had a long history of tolerant housing policies. Takoma Park is a hodgepodge of two-, three-, and four-family homes within easy commuting distance of Washington. During World War II, homeowners rented attics and spare bedrooms to wartime officials who could not find housing in Washington. This tradition continued after the war, when many returning GI's sought housing while attending nearby Columbia Union College. Many homeowners permanently converted their homes to two- and three-family units.

During the 1970s, however, a group of homeowners living in a recently constructed, more suburban part of the city asked Montgomery County to enforce a sixty-year-old zoning ordinance that prohibited rentals in single-family zones. (Zoning is controlled by county governments in Maryland.) After a long dispute, the city council adopted a compromise in 1978, which permitted anyone who was renting before 1954 to continue to do so for another ten years. In 1988 the reprieve expired, however, and evictions began. More than six hundred tenants were forced to leave their homes.

The appeal of utopianism

It is important to realize that housing regulations are to blame for a lot of homelessness. But at the same time, we must acknowledge the impulses that make people want to intervene in the housing marketplace.

About a year ago, I spent a few days in San Francisco's Market Street district, a notorious skid row. Although not particularly dangerous, the surroundings were decidedly unpleasant. Weather-beaten young men, each of whom seemed to have his entire

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worldly belongings wrapped in a sleeping bag, lounged along the sidewalks. Ragged holdovers from the sixties perched on public monuments, performing drunken imitations of rock singers. Veterans of motorcycle gangs weaved past timid pedestrians, carrying on garrulous arguments with their equally disheveled girlfriends. Along the side streets, tattoo parlors jostled with cheap cafeterias, pornography shops, and the inevitable flophouse hotels.

It was easy enough to imagine some ambitious politician surveying the scene and deciding that it was time to "clean up Market Street." Such campaigns have occurred all over the country and have inevitably produced the disjuncture that we now find between the supply of housing and the price that poor people can afford to pay for it.

Yet distasteful as it may seem, skid rows play a crucial role in providing the poor and near-poor with cheap housing. Not everyone can live in suburban subdivisions or high-rise condominiums. To provide for everyone, we also need rooms for rent, fleabag hotels, tenements, trailer parks—and the "slumlords" who often run them. Although usually imagined to be rich and powerful, these bottom-rung entrepreneurs almost always turn out to be only slightly more affluent than the people for whom they are providing housing.

In the utopian dreams of regulators and "housing activists," such landlords are always eliminated. They are inevitably replaced by the federal government and the "non-profits," orchestrated by the city planners and visionary architects who would "tear down the slums" and replace them with "model tenements" and the "garden cities of tomorrow."

It is not wrong to have such visions. But let us do things in stages. Let us build the new housing *first*—and only then tear down the old "substandard" housing that is no longer needed. If we let the best become the enemy of the good—or even the barely adequate—the homeless will have nothing more substantial to live in than the dreams of the housing visionaries themselves.

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The case for greatly increased immigration

JULIAN L. SIMON

BY INCREASING somewhat the flow of immigrants—from about 600,000 to about 750,000 admissions per year—the immigration legislation passed by Congress late in 1990 will improve the standard of living of native-born Americans. The bill represents a sea change in public attitude toward immigration; it demonstrates that substantially increasing immigration is politically possible now. That's all good news, and we should celebrate it.

The bad news is that the legislation does not *greatly* increase immigration. The new rate is still quite low by historical standards. A much larger increase in numbers—even to, say, only half the rate relative to population size that the United States accepted around the turn of the century—would surely increase our standard of living even more.

The political problem for advocates of immigration is to avoid the letdown to be expected after the passage of this first major legal-immigration bill in a quarter-century. And since the new law seems to contemplate additional legislation (by providing for a commission to collect information on immigration), it is important

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to educate the public about how immigration benefits the nation as well as the immigrants.

Increased immigration presents the United States with an opportunity to realize many national goals with a single stroke. It is a safe and sure path—open to no other nation—to achieve all of these benefits: 1) a sharply increased rate of technological advance, spurred by the addition of top scientific talent from all over the world; 2) satisfaction of business's demand for the labor that the baby-bust generation makes scarce; 3) reduction of the burden that retirees impose upon the ever-shrinking cohort of citizens of labor-force age, who must support the Social Security System; 4) rising tax revenues—resulting from the increase in the proportion of workers to retirees—that will provide the only painless way of shrinking and perhaps even eliminating the federal deficit; 5) improvement in our competitive position vis-á-vis Japan, Europe, and the rest of the world; 6) a boost to our image abroad, stemming from immigrants' connections with their relatives back home, and from the remittances that they send back to them; and 7) not least, the opportunity given to additional people to enjoy the blessings of life in the United States.

All the U.S. need do to achieve these benefits is further to relax its barriers against skilled immigrants. Talented and energetic people want to come here. Yet we do not greatly avail ourselves of this golden opportunity, barring the door to many of the most economically productive workers in the world.

If immigration is such an across-the-board winner, why aren't we welcoming skilled and hardworking foreigners with open arms? These are some of the reasons: 1) The public is ignorant of the facts to be presented here; it therefore charges immigrants with increasing unemployment, abusing welfare programs, and lowering the quality of our work force. 2) Various groups fear that immigrants would harm their particular interests; the groups are less concerned with the welfare of the country as a whole. 3) Well-organized lobbies oppose immigration, which receives little organized support. 4) Nativism, which may or may not be the same as racism in any particular case, continues to exert an appeal.

The dimensions of present-day immigration

The most important issue is the total number of immigrants allowed into the United States. It is important to keep our eyes fixed on this issue, because it tends to get obscured in emotional

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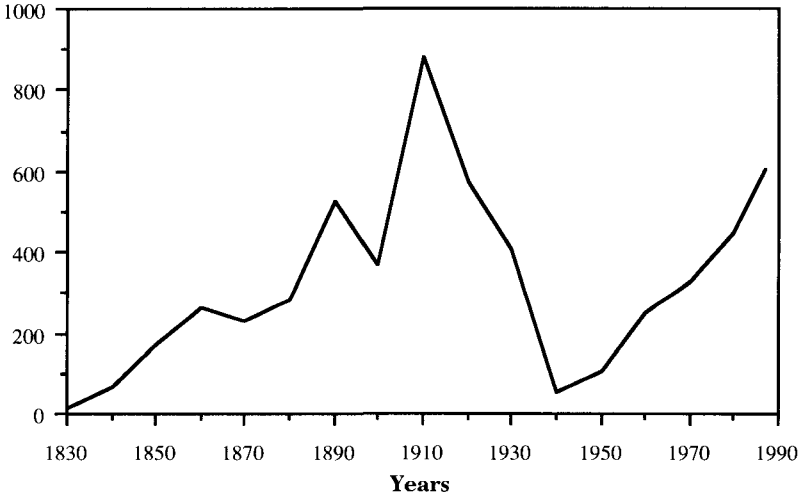
discussions of the desirability of reuniting families, the plight of refugees, the geographic origin and racial composition of our immigrant population, the needs of particular industries, the illegality of some immigration, and so on.

The Federation for American Immigration Reform (FAIR)—whose rhetoric I shall use as illustration—says that "[i]mmigration to the United States is at record levels." This claim is simply false: Figure I shows the absolute numbers of legal immigrants over the decades. The recent inflow clearly is far below the inflow around the turn of the century—even though it includes the huge number of immigrants who took advantage of the 1986 amnesty; they are classified as having entered in 1989, although most of them actually arrived before 1980. Even the inclusion of illegal immigrants does not alter the fact that there is less immigration now than in the past.

Figure I: Annual Number of U.S. Immigrants (in 1,000s)



Economically speaking, more relevant than these absolute numbers is the volume of immigration as a proportion of the native population, as shown in Figure II. Between 1901 and 1910 immigrants arrived at the yearly rate of 10.4 per thousand U.S. population, whereas between 1981 and 1987 the rate was only 2.5 percent of the population. So the recent flow is less than a fourth as heavy as it was in that earlier period. Australia and Canada admit three times that many immigrants as a proportion of their populations.

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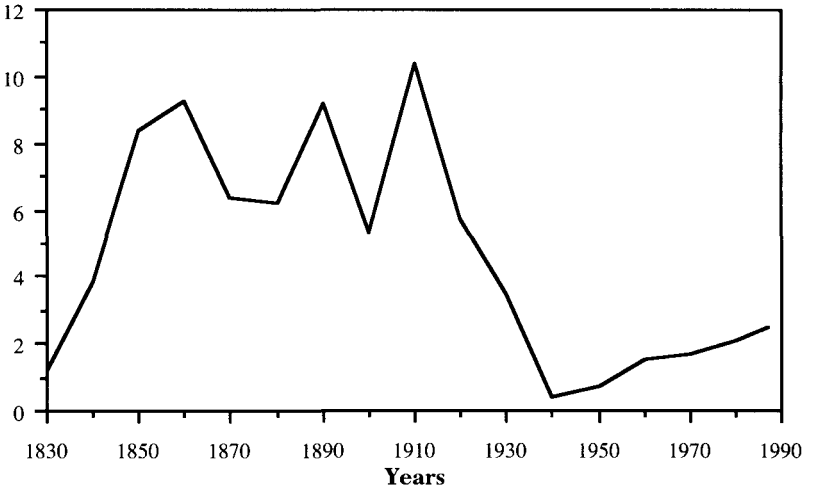
Figure II: Immigrants to the U.S. per 1,000 Inhabitants



Another way to think about the matter: in 1910, 14.6 percent of the population was born abroad, but in 1980 less than 6 percent of us were. Not only is the present stock of immigrants much smaller proportionally than it was earlier, but it also is a small proportion considered by itself. We tend to think of ourselves as a "nation of immigrants," but less than one out of fifteen people now in the U.S. was born abroad, including those who arrived many years ago. Who would guess that the U.S. has a smaller share of foreign-born residents than many countries that we tend to think have closed homogeneous populations—including Great Britain, Switzerland, France, and Germany? We are a nation not of immigrants, but rather of the descendants of immigrants.

Furthermore, the absorption of immigrants is much easier now than it was in earlier times. One has only to read the history of the Pilgrims in Plymouth Colony to realize the enormity of the immediate burden that each new load of immigrants represented. But it is the essence of an advanced society that it can more easily handle material problems than can technically primitive societies. With every year it becomes easier for us to make the material adjustments that an increase in population requires. That is, immigrant assimilation becomes ever less of an economic problem—all the more reason that the proportion of immigrants now seems relatively small, compared with what it was in the past.

Unfortunately, despite recent changes favoring skilled immigrants, our present admissions policy remains largely nepotistic.

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Most visas are granted to foreigners who have family connections here. Even with the 1990 legislation, the U.S. will admit only about 110,000 people—perhaps 20 percent of all immigrants—on the basis of their job skills. Compare our policy with Australia's, which admits almost 50 percent of its immigrants according to "economic" criteria, and only 30 percent as relatives of citizens. Many of those whom we admit via family preferences also are skilled, of course, but it would be beneficial to us as well as fair to deserving foreigners to admit more people on the basis of merit alone. Indeed, George Borjas of the University of California at Santa Barbara has presented evidence that the economic "quality" of immigrants with given levels of education has declined in recent decades—though the magnitude of the decline remains controversial; the likeliest explanation for the decline is an increase in the proportion of immigrants who are admitted as relatives rather than on their merits alone. On the other hand, Harriet Duleep of the U.S. Civil Rights Commission has recently shown that despite the different admissions policies of the U.S. and Canada (which uses a point system), immigration affects the economies of the two countries similarly—probably because families carefully evaluate the economic potential of relatives before deciding to bring them in.

For years, phony inflated estimates of the stocks and flows of illegal immigrants were bandied about by opponents of immigration in order to muddy the waters. Since the 1986 Simpson-Mazzoli law's amnesty we know that the numbers are actually quite modest, much lower than even the "mainstream" estimates cited in the press. So that scare no longer serves as an effective red herring for opponents of immigration.

Malthusian and other objections

Now let us consider the costs and benefits of immigration—even though economic issues may not be the real heart of the matter, often serving only as a smoke screen to conceal the true motives for opposition. Only thus can one explain why the benefits of immigration do not produce more open policies. Because opponents of immigration wield economic arguments to justify their positions, however, we must consider their assertions.

Malthusian objections to immigration begin with "capital dilution." The supposed "law of diminishing returns"—which every economics text explains should not be thought of as a law—causes

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output per worker to fall. The "law" is so marvelously simple, direct, and commonsensical that it easily seduces thought—especially among academics, for whom such abstractions are bread and butter. Its simplicity also makes the Malthusian notion excellent fare for the family newspaper. In contrast, the arguments that demonstrate the inapplicability of Malthusian capital dilution in the context of immigration are relatively complex and indirect. As a consequence, simple—though incorrect—Malthusianism easily attracts adherents.

Nowadays, however, the most important capital is human capital—education and skills, which people own themselves and carry with them—rather than capitalist-supplied physical capital. The bugaboo of production capital has been laid to rest by the experience of the years since World War II, which taught economists that, aside from the shortest-run considerations, physical capital does not pose a major constraint to economic growth. It is human capital that is far more important in a country's development. And immigrants supply their own human capital.

The main real cost that immigration imposes on natives is the extra capital needed for additional schools and hospitals. But this cost turns out to be small relative to benefits, in considerable part because we finance such construction with bond issues, so that we operate largely on a pay-as-you-go basis. Immigrants therefore pay much of their share.

The supposed cost that most captures the public's imagination, of course, is welfare payments. According to popular belief, no sooner do immigrants arrive than they become public charges, draining welfare money from the American taxpayers, and paying no taxes.

Solid evidence gives the lie to this charge. In an analysis of Census Bureau data I found that, aside from Social Security and Medicare, about as much money is spent on welfare services and schooling for immigrant families as for citizens. When programs for the elderly are included, immigrant families receive far *less* in public services than natives. During the first five years in the U.S., the average immigrant family receives $1,400 in welfare and schooling (in 1975 dollars), compared with the $2,300 received by the average native family. The receipts gradually become equal over several decades. Athur Akhbari of St. Mary's College in Canada has shown that recent Canadian data produce almost identical results. And Duleep's finding that the economic results of

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Canadian and U.S. immigration are quite similar, despite the different admissions systems, adds weight to the conclusion that U.S. immigrants pay much more in taxes than they receive in benefits.

Of course there must be some systematic abuses of the welfare system by immigrants. But our legislative system is capable of devising adequate remedies. Even now there are provisions in the Immigration and Naturalization Act that deny visas to aliens who are "likely to become public charges" and provide for the deportation of immigrants who have within five years after entry become public charges "from causes not affirmatively shown to have arisen after entry."

As to illegal immigrants and welfare, FAIR typically says that "[t]axpayers are hurt by having to pay more for social services." Ironically, several surveys—for example, one by Sidney Weintraub and Gilberto Cardenas of the University of Texas—show that illegals are even heavier net contributors to the public coffers than legal immigrants; many illegals are in the U.S. only temporarily and are therefore without families, and they are often afraid to apply for services for fear of being apprehended. Illegals do, however, pay taxes.

Some cities and states with disproportionately high immigration do incur significant costs and complications when immigrants first arrive. They deserve sympathy and perhaps federal assistance, though officials should note that immigrants' federal taxes will later effectively pay for such temporary assistance.

The non-threat of displaced native workers

The most dramatic argument against immigration—the bogeyman in the mind of organized labor, which has been its most powerful political opponent since the nineteenth century—has been that foreigners take jobs held by natives and thereby increase native unemployment. The logic is simple: if the number of jobs is fixed, and immigrants occupy some jobs, there must be fewer available jobs for natives.

In the shortest run, the demand for any particular sort of worker is indeed inflexible. Therefore, additional immigrants in a given occupation must to some degree lower wages and/or increase unemployment in that occupation. For example, the large recent influx of foreign physicians increases the competition that U.S. physicians face, lowering their earnings. But because immigrants come with a variety of skills, workers in most occupations feel lit-

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tle impact. And in the longer run, workers in most occupations are not injured at all.

A good-sized body of competent recent research shows that immigration does not exacerbate unemployment, even among directly competing groups; in California, for instance, immigrants have not increased unemployment among blacks and women. And the research, done by several independent scholars from a variety of angles, uses several kinds of data. For example, Stephen Moore and I systematically studied immigration's effects upon overall unemployment, by looking at the changes in unemployment in various U.S. cities that have experienced different levels of unemployment. We found that if there is displacement, it is too little to be observable.

The explanation is that immigrants not only take jobs, but also create them. Their purchases increase the demand for labor, leading to new hires roughly equal in number to the immigrant workers. Immigrants also create jobs directly by opening new businesses. A Canadian government survey of immigrants, which should also describe U.S. experience, found that almost 5 percent—ninety-one of the 1746 males and 291 single females in its panel sample—had started businesses within their first three years in Canada. Not only did they employ themselves, but they also employed others, creating a total of 606 jobs. Thus the total of 2037 immigrants personally created roughly 30 percent as many jobs as they collectively held. Furthermore, these numbers surely rose rapidly after the three-year study period; after one year seventy-one self-employed immigrants had created 264 jobs, compared with the ninety-one immigrant entrepreneurs and 606 jobs observed after three years.

We can interpret this result as follows: even if one native Canadian was pushed out of a preexisting job by every five immigrants—an improbably high number—this effect would be more than made up for by the new jobs, occupied by natives, created by the immigrants' businesses.

The businesses that immigrants start are at first small, of course. But surprisingly, small businesses are the most important source of new jobs. And immigrant entrepreneurs tend to succeed in a dynamic economy, because they are innovative and mobile.

Furthermore, potential immigrants are well aware of labor-market conditions in the U.S., and they tend not to come if there is little demand for their skills. Natives tend not to be harmed

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even in the few industries—like the restaurant and hotel businesses—in which immigrants concentrate, because natives do not want jobs in these industries. Evidence for this comes from experiments conducted by the Immigration and Naturalization Service and San Diego County. In one case, 2154 illegal aliens were removed from jobs, but the California State Human Resources Agency had almost no success in filling the jobs with U.S. citizens.

Wages are admittedly pushed downward somewhat in industries and localities in which immigrants are concentrated. Barton Smith and Robert Newman of the University of Houston found that adjusted wages are 8 percent lower in the Texas border cities in which the proportion of Mexicans is relatively high. Much of the apparent difference is accounted for by a lower cost of living in the border cities, however. And because immigrants tend to be heterogeneous in their skills, their presence does not disproportionately affect any particular industry; and of course salaries rise in the occupations that few immigrants enter. (Indeed, if immigrants were spread evenly throughout all occupations, wages would not fall in any occupation.) At the same time, immigrants, who consume a wide variety of goods and services, increase the demand for labor across the range of occupations.

Tax payments

If immigrants paid relatively little in taxes they might still burden natives, despite using fewer welfare services. But data on family earnings, which allow us to estimate tax payments, show that this is not at all the case.

Immigrants pay more than their share of taxes. Within three to five years, immigrant-family earnings reach and pass those of the average American family. The tax and welfare data together indicate that, on balance, an immigrant family enriches natives by contributing an average of $1,300 or more per year (in 1975 dollars) to the public coffers during its stay in the U.S. Evaluating the future stream of these contributions as one would a dam or harbor, the present value of an immigrant family—discounted at the risk-free interest rate of 3 percent—adds up to almost two years' earnings for a native family head. This means that the economic activities of an average immigrant family reduce the taxes of a native head of household enough to advance his or her possible date of retirement by two years.

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Curiously, contemporary welfare-state policies render immigration more beneficial to natives than it was in earlier times when welfare was mainly voluntary. There are two main reason why today's immigrants make net contributions to the public coffers. First, far from being tired, huddled masses, immigrants tend to come when they are young, strong, and vibrant, at the start of their work lives. For example, perhaps 46 percent of immigrants are in the prime labor-force ages of twenty to thirty-nine, compared with perhaps 26 percent of natives. And only 4 percent of immigrants are aged sixty or over, compared with about 15 percent of natives. Second, many immigrants are well educated and have well-paying skills that produce hefty tax contributions.

Because immigrants arrive in the early prime of their work lives, they ward off a major looming threat to U.S. economic well-being. This threat is the graying of the population, which means that each working native has an increasing burden of retired dependents to support. In 1900, there were five and one-half people aged twenty-five to fifty-four for each person aged sixty and above, whereas the Census Bureau projects that in the year 2000 the ratio will shrink to two and one-half to one—resulting in a burden that will be more than twice as heavy on workers.

Being predominantly youthful adults, immigrants mitigate this looming problem of more retired natives being supported by fewer workers. Indeed, immigration is the only practical way to alleviate the burden of increasing dependency that native workers would otherwise feel.

In the public sphere this means that immigrants immediately lessen the Social Security burden upon native workers. (The same holds for the defense burden, of course.) And if there is a single factor currently complicating the government's economic policies, it is the size of Social Security payments and other assistance to the aged. Immigration—and the resulting increase in tax payments by immigrants—provides the only way to reduce the federal budget deficit without making painful cuts in valued services.

Boosting productivity

Most important in the long run is the boost that immigrants give to productivity. Though hard to pin down statistically, the beneficial impact of immigration upon productivity is likely to dwarf all other effects after these additional workers and consumers have been in the country a few years. Some of the productivity increase comes

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from immigrants working in industries and laboratories that are at the forefront of world technology. We benefit along with others from the contribution to world productivity in, say, genetic engineering that immigrants could not make in their home countries. More immigrants mean more workers, who will think up productivity-enhancing ideas. As Soichiro Honda (of motorcycle and auto fame) said: "Where 100 people think, there are 100 powers; if 1,000 people think, there are 1,000 powers."

It is well to remember that the development of the atomic bomb hinged on the participation of such immigrants as Enrico Fermi, John von Neumann, and Stan Ulam, among many others. Contemporary newspaper stories continue this historical saga, noting the disproportionate numbers of Vietnamese and other Asian immigrant youths who achieve distinction in competitions such as the Westinghouse Science Talent Search. Ben Wattenberg and Karl Zinsmeister of the American Enterprise Institute write that among the forty 1988 finalists, "22 were foreign-born or children of foreign-born parents: from Taiwan, China, Korea, India, Guyana, Poland, Trinidad, Canada, Peru, Iran, Vietnam and Honduras." They also note that one-fourth of recent valedictorians and salutatorians in San Diego have been Vietnamese, and that thirteen of the seventeen public high school valedictorians in Boston in 1989 were foreign born. Sometimes it seems as if such names as Wang Computers and Steve Chen dominate our most vigorous industry.

The bottom line

An economist always owes the reader a cost-benefit assessment for policy analysis. So I combined the most important elements pertaining to legal immigrants with a simple macroeconomic model, making reasonable assumptions where necessary. The net effect is slightly negative for the early years, but four or five years later the net effect turns positive and large. And when we tote up future costs and benefits, the rate of "investment" return from immigrants to the citizen public is about 20 percent per annum—a good return for any portfolio.

Does all this seem to be a far-out minority view? In 1990 the American Immigration Institute surveyed prominent economists—all the ex-presidents of the American Economic Association, and then-members of the Council of Economic Advisers—about immigration. Economists ought to understand the economic effects of

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immigration better than others, so their views are of special interest. More than four-fifths of the respondents said that immigration has a very favorable impact on economic growth; none said that its impact is unfavorable. Almost three-fourths said that illegals have a positive economic impact. And almost all agree that recent immigrants have had the same kind of impact as immigrants in the past.

The real reasons for opposition

I began by citing various reasons for our failure to take in more immigrants, despite the clear-cut benefits of doing so. The first is ignorance of the benefits described above. Second is the opposition by special interests, such as organized labor (which wants to restrict competition for jobs) and ethnic groups (whose members often fear that immigration will cause their proportion of the population to decrease). The third reason is well-organized opposition to immigration and a total lack of organized support for it.

FAIR, for example, has a large budget—it amassed $2,000,000 in revenues in 1989—and a large staff. It supports letter-writing campaigns to newspapers and legislators, gets its representatives onto television and radio, and is in the rolodex of every journalist who writes on the subject. Several other organizations play a similar role. On the other side, until recently no organization advocated more immigration generally. Now at least there is the fledgling American Immigration Institute; and the de Tocqueville Institute did excellent work on immigration in 1989 and 1990, before taking on other issues.

The fourth check to immigration is nativism or racism, a motive that often lies beneath the surface of the opposition's arguments.

Rita Simon of American University, who has studied the history of public opinion toward immigrants, has found that the arguments against immigration have remained eerily identical. In the first half of the nineteenth century, Irish immigrants in New York and Boston were seen as the unassimilable possessors of all bad qualities. One newspaper wrote: "America has become the sewer into which the pollutions of European jails are emptied." Another asked: "Have we not a right to protect ourselves against the ravenous dregs of anarchy and crime, the tainted swarms of pauperism and vice Europe shakes on our shores from her diseased robes?"

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The 1884 platform of the Democratic party stated its opposition to the "importation of foreign labor or the admission of servile races unfitted by habit, training, religion or kindred for absorption into the great body of our people or for the citizenship which our laws confer."

Francis Walker, Commissioner General of the Immigration Service, wrote in 1896:

> The question today is ... protecting the American rate of wages, the American standard of living, and the quality of American citizenship from degradation through the tumultuous access of vast throngs of ignorant and brutalized peasantry from the countries of Eastern and Southern Europe.

In the 1920s the *Saturday Evening Post* also directed fear and hatred at the "new immigrants" from Southern and Eastern Europe: "More than a third of them cannot read and write; generally speaking they have been very difficult to assimilate.... They have been hot beds of dissent, unrest, sedition and anarchy."

Although statements like these are no longer acceptable in public, many people still privately sympathize with such views. One can see the traces in nativist codewords that accuse immigrants of "disturbing national homogeneity" and "changing our national culture."

Improving our policies

In addition to admitting more immigrants into the United States, we should also consider instituting other desirable changes in policy. Specifically, we must go further to increase the benefits that accrue to the United States from the inflow of highly educated people with high productive potential—especially people with technical skills. To its credit, the 1990 legislation will increase the flow of talented people by increasing the proportion of immigrants who are admitted because of their economic characteristics rather than their familial ties to U.S. citizens. This was worth doing to reduce nepotistic "family connections" admissions, and to treat meritorious applicants without such connections more fairly.

The new system does not greatly increase the flow of highly skilled people, however. An additional 100,000 or so immigrants will be admitted under the new provisions for economic selection; only 40,000 will be skilled people, the other 60,000 being their dependents. The overall increase in numbers admitted will yield

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perhaps another 30,000 highly skilled people. This is still only a small—though a most valuable—increment to our economy.

The 1990 legislation also contains a beneficial provision allowing entry to people who will invest a million dollars and create employment for ten Americans. Although this provision will not be as profitable for natives as an outright sale of the opportunity to immigrate, as permitted by some other countries, it does move in the right direction. But the new law does not go far enough; it permits entry to a maximum of only 10,000 persons per year under this provision—a piddling number by any standard.

Another policy that the U.S. might employ is simply to give permanent-resident visas to foreigners studying in the U.S. Many foreign students already find ways to remain under the present rules—about half of them students of engineering and science. And even more foreign graduates would remain if they could, which would push up our rate of progress even more.

Furthermore, if young foreigners knew that they could remain in the United States after completing their education here, more would choose to study here. This would provide multiple benefits to the United States. Given assurance that they could remain, these students could pay more realistic tuition rates than are now charged, which would benefit U.S. universities. And these increased rates would enable universities to expand their programs to serve both foreign and native students better. Best of all would be the increased number of highly competent scientific and managerial workers who would be part of the American work force.

In addition, a larger number of students requires a larger number of professors. And a larger number of openings for professors, especially in such fields as engineering and science, would attract more of the world's best scientists from abroad. This would enhance the process that has brought so many foreigners who subsequently won Nobel prizes to the U.S.—to the advantage as well as the honor of this country.

Political advantages

Political power and economic well-being are intimately related; a nation's international standing is heavily influenced by its economic situation. And today the future of any country—especially of a major country that is in the vanguard with respect to production and living standards—depends entirely on its progress in knowledge, skill, and productivity. This is more true now than in the

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past, because technology changes more rapidly than in earlier times. Even a single invention can speedily alter a country's economic or military future—consider, for example, the atom bomb or the computer—as no invention could in the past, even the invention of the gun. That's why immigration safely, cheaply, and surely provides the U.S. with perhaps the greatest opportunity that a country has ever had to surpass its political rivals.

And the best way for the U.S. to boost its rate of technological advance, and to raise its standard of living, is simply to take in more immigrants. To that end, I would suggest that the number of visas be increased by half a million per year for three years. If no major problems arise with that total (and there is no reason to expect a problem, since even another one or two million immigrants a year would still give us an admissions rate lower than we successfully coped with in earlier times, when assimilation was more difficult), then we should boost the number by another half-million, and so on, until unexpected problems arise.

Immigration policy presents the U.S. with an opportunity like the one that faced the Brooklyn Dodgers in 1947, before blacks played baseball on any major-league team. Signing Jackie Robinson and then Roy Campanella, at the price of antagonizing some players and club owners, put the Dodgers way ahead of the pack. In the case of immigration, unlike baseball, no other "team" can duplicate our feat, because immigrants mainly want to come here. All we need is the vision, guts, and ambition of Dodger general manager Branch Rickey. (A bit of his religious zeal mixed in would do no harm.)

Can we see our national interest clearly enough to reject unfounded beliefs that some groups will lose jobs to immigrants, and to surmount the racism that remains in our society? Or will we pay a heavy price in slower growth and lessened efficiency for maintaining our prejudices and pandering to the supposed interests of groups—organized labor, environmentalists, and others—whose misguided wishes will not benefit even them in the long run?

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Individualist America and Today's Immigrants

PETER SKERRY

THERE IS much to admire in James Fallows's *More Like Us: Making America Great Again*,[†] based on his reportage from Japan, where he lived with his family for several years. It is definitely not a book about Japan, trade deficits, industrial policy, or protectionism. Instead it is a rumination on America's unique qualities, which the author has come to appreciate from abroad.

In Fallows's view, America's greatness derives from the competitive individualism and antitraditionalism that are consonant with the "creative destruction" (he borrows the phrase from Schumpeter) of our capitalist economy. For Fallows the essence of our "abnormal" society is its "vision of people always in motion, able to make something different of themselves, ready for second chances until the day they die." It is precisely this quality that Fallows argues is now endangered by "class-bound roles" that lessen social mobility and undermine the creative forces of change set in motion by capitalism. He singles out for criticism the emergence of intelligence testing and academic credentialism, which he argues are better suited to a static Confucian society than to ours. In today's competitive world economy, Fallows fears that we are losing sight of what makes us unique; he therefore urges that we be "more like us." Toward that goal, he advocates a variety of policies including workfare programs, education vouchers, trimmed entitlements, and generous immigration levels.

Yet this book is not about programs and taxes, but about values and particularly culture—a concept that Fallows takes very seriously. Virtually banned from public-policy debate, cultural explanations of social, political, and economic phenomena have become the exclusive province of conservatives. So it is refreshing to encounter a writer with a decidedly liberal perspective who can wield the concept with some subtlety.

[†]Houghton Mifflin. 246 pages. $18.95 cloth, $8.95 paper.

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At the same time, Fallows avoids the predictable liberal fascination with European social-democratic values, and strives to understand our own homegrown ones. There is no hint here of intellectual slumming, however—of the deracinated intellectual who has found his way home, or merely switched to a popular-front mode, to revel in all that he once reviled. We have instead a rare commodity: a Washington-based journalist willing, in a nonelection year, to venture beyond the Beltway for more than a weekend in West Virginia. Indeed, there is about James Fallows an openness and humility toward his subject that is notable and quite engaging. He even manages to compare Japan to America quite unfavorably without a trace of venom or nastiness.

YET DESPITE such appealing aspects, Fallows's effort is fundamentally flawed. Not surprisingly, a book entitled *More Like Us* hinges on the author's conception of who we are; and Fallows ultimately stumbles on his misreading of the American experience.

Fallows's theme is that "Japan is strong because of its groups; America, because of its individuals." More specifically, he argues that the genius of America has been to set individuals free from the bonds of tradition, thereby permitting them to adapt to, and take advantage of, the disorder and social change unleashed by capitalism.

Paradigmatic for Fallows in this regard is one Buddy Ginn, a middle-aged jack-of-all-trades whom he met in a Texas oilfield in 1982. Several years earlier, Ginn had grown discontented with life in the small Indiana town in which he had been born and raised. Though married with children, he pulled up stakes one day and took off for Texas with $500 in cash and a pregnant girlfriend. Between the two of them, they left behind two spouses, one ex-spouse, and several children. But of most interest to Fallows is the fact that Ginn, through sheer grit and determination, worked his way up through the oil-well maintenance business; got wiped out by the price drop in the early 1980s; and then, at the age of forty-two, started over in a training program that had him digging ditches for $7 an hour.

At about the same time he met up with Ginn, Fallows encountered a Vietnamese refugee in Southern California named Nguyen Dong. The first of a fourteen-member Saigon household to arrive here, Nguyen showed his many relatives how their pooled resources could be put to best use in the United States. Nguyen and his family were hardly uneducated peasants, but they arrived without connections or wealth. Nguyen started off working for $2.10 an

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hour in a waterbed factory in El Segundo. Within a decade of his arrival, however, he had emerged as the young patriarch of an immigrant clan whose members owned two houses, a furniture store, and a Beverly Hills beauty salon.

Fallows offers these two vignettes as examples of the "reinvented lives" permitted by America's remarkably open social and economic system. Yet a moment's reflection reveals that they present more contrasts than similarities. Buddy Ginn's story sounds depressingly familiar, an example of the extreme individualism that now allows American parents casually to abandon their family responsibilities. If Ginn were black, Fallows might well lament the continued unraveling of black family ties. Instead, Ginn's story exemplifies for Fallows how America offers second, third, and more chances to those willing to scratch and scramble. Fallows cannot be accused of ignoring the negative aspects of capitalism's "creative destruction," but he does not seem to understand that Ginn's life stands in stark contrast to Nguyen's.

Indeed, it seems safe to say that Buddy Ginn's evasion of familial responsibility would horrify Nguyen Dong. For Nguyen's story involves not escape from his family, but years of struggle and sacrifice to reunite his many siblings, who were scattered about the world after the fall of Saigon. As Fallows himself quotes Nguyen, "The way of living in our country is so different. We have a tradition of sticking together."

Like that of many other Asian refugees, the story of Nguyen's family underscores the fact that much of the entrepreneurial activity of which Fallows approves has been pursued not by individuals but by families—particularly immigrant families who have not yet adopted our individualistic ways. And although there is plenty of evidence to support this point in his own account, Fallows ignores it as he lumps the Nguyens' story with Buddy Ginn's as examples of "starting over in America."

He also ignores the related point that strong families like the Nguyens tend to produce the individuals who are most capable of taking the chances necessary to succeed in capitalist societies. Strong families can certainly offer sustenance, psychological as well as financial, for individual risk taking. Fallows includes but fails to acknowledge this point when he recounts how Mr. Nguyen had to talk his fainthearted brother into risking his savings in a furniture store.

This blind spot is particularly striking in light of Fallows's personal history. Illustrating his point about the opportunities that America provides to those willing to "reinvent themselves," he devotes an entire chapter to how, in the summer of 1955, his fam-

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ily left Philadelphia and drove cross-country to start a new life in Redlands, California. Despite the relocation, what emerges from that account is the image of a family with a solid sense of its past. Fallows notes that his father's forebears arrived in Pennsylvania from Lancashire, England, in the nineteenth century, and that his paternal great-grandfather, Josiah Fallows, was a railroad engineer who died saving a trainload of passengers from a collision. Of this "family hero," Fallows writes, "I grew up seeing his picture, which looked like a twin of my father's with a nineteenth-century handlebar mustache added on, in a big, old-fashioned oval frame hanging in my father's study at home." Fallows seems not to appreciate that families with pictures of revered ancestors hanging on the walls are more likely to produce individuals capable of taking advantage of the opportunities available to them in America. One wonders whether Buddy Ginn's children left behind in Indiana have fared as well.

ANY RESERVATIONS harbored by Fallows about the unfettered individualism personified by Ginn emerge only briefly at the end of the book. Having extolled American individualism for more than two hundred pages, Fallows suddenly acknowledges (on the penultimate page) that it has necessarily been counterbalanced by our sense of fair play and commitment to a uniform set of rules. He then intones: "The individual side of this balance has received nearly all the political and cultural attention in the last ten years. The pendulum is ready to swing the other way." Fallows goes on to quote Senator Paul Simon approvingly: "Americans instinctively know that we are one nation, one family, and when anyone in that family hurts, all of us hurt. There really is a yearning across this land for leadership that appeals to the noble in us rather than to the greed in us."

This passage is the closest Fallows comes to outright polemic. He offers no explanation of the difference between what he and Senator Simon call "greed" and the entrepreneurial pluck celebrated throughout his book. Was it greed or pluck that caused Buddy Ginn to abandon his family and move to Texas? How about the ceaseless striving of the Vietnamese refugees in Southern California? In both cases Fallows sees pluck. Yet he offers no criterion by which the aspirations of blue-collar whites or recent immigrants can be judged as more noble than those of other Americans—though he does suggest that supporting Reagan is somehow ignoble.

Fallows similarly fails to address the possibility that today's individualism is qualitatively different from that of earlier generations of Americans. Indeed, despite his focus on culture, Fallows

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has a static view that lacks any appreciation of how values change over time. Take, for example, Fallows's recounting of a joke told by former Prime Minister Takeshita to his countrymen: on account of the weak dollar, American sailors could no long afford Japanese bar girls; their only consolation was to stay on base and give each other AIDS. Fallows offers this story as an example of Japanese condescension toward foreigners in general and Americans in particular. It apparently does not occur to him that the Japanese tell this joke because they, like many Americans, believe that our individualism has reached decadent extremes.

Nevertheless, Fallows understands that this nation of individualists requires something to hold it together. For that he turns to the Cuomo-esque conceit of "the nation as family." In this formulation, "the nation" could accurately be replaced by "the state." In either case, the result is an oxymoron. But this is what happens when contemporary liberals, having reduced society to an agglomeration of rights-claiming individuals enmeshed in a matrix of rules and regulations, seek to sustain their cold, legalistic leviathan with the warm blood of organic social institutions.

Of course, it's not quite fair to tar Fallows, a neoliberal, with this brush. But it is striking that he never reconciles his invocation of the nation as family with his opening declaration that Japan is not like America precisely because "Japan ... works like a family, in which people are definitely not equal but instinctively recognize shared interests and pull together for the common good."

No wonder Fallows is left ruminating on William James's search for a moral equivalent to war, recalling how World War II brought us together as a nation, and pondering the hapless effort of Jimmy Carter (for whom Fallows wrote speeches) to find in the energy crisis a source of national cohesion. In a book subtitled "Making America Great Again," such thoughts call to mind the fate of turn-of-the-century Progressives who, similarly dismayed by what they regarded as a lack of community, ended up supporting Woodrow Wilson's war to make the world safe for democracy as a means of unifying the nation. As that episode teaches, such utopianism leads to despair and disillusionment. It can also lead to a contempt for the lives of ordinary Americans that is fundamentally at odds with the decency and humility of a James Fallows.

YET FALLOWS must be placed among those liberals whose hostility to existing sources of community and social cohesion leaves them dependent on the musings of the philosopher-governor on the Hudson. In a chapter entitled "Static Societies," Fallows writes disparagingly of the way of life that he found in the

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shadows of silent steel mills in South Chicago in the early 1980s: "The life of the steel communities was dominated by big, unwieldy institutions: the church, the schools, the army, the union, the mill, the Chicago political machine. Despite their many differences, they all taught one lesson: people should know their place."

While many would hold up such institutions as bastions of racism, sexism, and other unenlightened views, Fallows eschews such inquisitional liberalism. Instead he concerns himself with how these institutions inhibit individual mobility. But this is also a limited, skewed perspective. For one can certainly criticize the imprudent policies of the steelworkers' union while at the same time acknowledging the role it once played in advancing the interests of its members. Although the other institutions cited by Fallows have their flaws, they also have helped alleviate grinding poverty and promote individual and collective mobility. An obvious example is the record of parochial schools at educating underprivileged children—a record still impressive today, as these same schools continue to attract large numbers of non-Catholic, inner-city blacks. Surely it is not enough to describe the "dense, tightly connected society" of South Chicago in exclusively negative terms.

Fallows also overlooks the critical role played by these "unwieldy institutions" in helping millions of immigrants become Americans. Here again, his notion that "our openness encourages Americans to adapt as individuals rather than as a group" obscures the many ways in which group and organizational ties, in addition to family ties, have helped individuals adapt to change and take advantage of opportunities in our dynamic economy and society.

The workings of American pluralism are further obscured by Fallows's notion that "the act of immigration" is tantamount to "choosing to become an American." On the contrary, our history demonstrates that the decision to immigrate has never been more than the first step on a journey that didn't always end in becoming an American. On the one hand, the pain and ambivalence of that journey meant that many immigrants resisted becoming Americans by neglecting to learn English or refusing citizenship, or, in many cases, by migrating back to their homeland. Many others made no conscious decision; it was gradually made for them in the course of the day-to-day struggle to earn a living and raise a family. Contrary to Fallows's understanding, immigration to the United States has for the most part not been a discrete event but a process.

Moreover, immigrants did not so much choose as learn to become Americans. And for most immigrants, and their American-born children, this lesson has meant learning to become individuals. This is no easy task for those who, like the Vietnamese

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refugees discussed earlier, are enmeshed in extended-family ties. In the past, the struggle to loosen these bonds was typically aided by churches, schools, unions, and political machines—the very institutions that Fallows scorns. These institutions provided critical public arenas in which immigrants learned to expand their horizons beyond the narrow confines of family and friends. It was in such institutions that villagers from Sicily or Silesia learned to think of themselves as Italians or Poles, workers or Democrats. Moreover, such identities were way stations on the road to becoming Americans—hence the paradox that immigrants to America learned to become individuals through participating in groups.

VIEWED BY the Progressives and other contemporary reformers, these group ties smacked of a benighted and parochial self-interest that was deeply offensive to valued notions of liberal individualism and republican virtue. In the same vein, Fallows regards such ties as the lingering residue of the past, foisted on immigrants by backward institutions. But surely such relationships substantially reflected immigrant tastes and values. They certainly represented an important means by which immigrants and their children coped with wrenching and frightening change.

And cope they did. The genius of American institutions—at least up to now—has been to strike a balance, by affording immigrants the support of familiar habits and relationships while allowing them the freedom to leave these behind in the quest for advancement in a radically new social and economic environment. Indeed, this pattern of individuals freely associating with and dissociating from loosely defined groups is what distinguishes America from Japan, where group membership is officially and rigidly defined. Surely it is the difference between pluralism and corporatism that distinguishes America from Japan, rather than that between individualism and group identity, which Fallows emphasizes.

Of course, those ties offering immigrants comfort and support could stifle individual initiative and enterprise. This was surely true of those left behind in the South Chicago neighborhoods that Fallows visited. Yet to focus on these alone is to ignore the many others for whom such neighborhoods were springboards to something better. Nevertheless, Fallows's animus against such communities is so strong that he contradicts his near-libertarian emphasis on the primacy of individual choice and ends up depicting their residents as passive victims.

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Fallows's misunderstanding of ethnic pluralism in America reflects in part his preoccupation with social class. Fallows is concerned that class barriers, like the "unwieldy institutions" of South Chicago, retard individual mobility. There is some plausibility to his argument that credentialism threatens to hinder social mobility by fostering the creation of rigid professional guilds that are sheltered from the challenges of the competitive economy and closed to the entry of the non-college-educated. Yet the real problem with Fallow's preoccupation with class is that it causes him to ignore the racial and ethnic cleavages that have, of course, been much more troublesome in our history. For example, drawing on his undergraduate experience at Harvard in the late 1960s, Fallows writes persuasively of class dynamics in Boston. But he completely ignores the racial tensions brewing there at that time, soon to erupt over busing.

THE IMPLICATIONS of Fallows's misreading of the American experience emerge most fully when he turns to immigration, which he describes as "the classic form of starting over in America." Misconstruing our current policy's emphasis on family reunification as merely "humanitarian," he fails to see that it is informed by the belief that stable, intact families promote the economic and social well-being of immigrants. Nevertheless, his support for current levels of immigration (in the range of 600,000 to 800,000 legal immigrants and refugees a year) is reasonable. So is his argument for reorienting our policy away from family preference and toward independent, so-called "new seed" immigrants, especially those with needed skills.

Still, Fallows's overall view of immigration is much too sanguine and insufficiently attentive to potential problems. Perhaps, as he argues, the effects of immigration on the American economy as a whole are positive. But he glosses over specific impacts on critical groups. For example, he cites an important study from the Urban Institute to support his argument, but he neglects to mention its finding that Mexican Americans in Southern California have been undercut in the labor market by immigrants. Relying on the same study, he notes that black employment levels in Southern California have not suffered from immigration, but he overlooks evidence that black wage levels have been affected. Fallows does acknowledge that *illegal* immigrants may have undercut working-class blacks and whites, but he claims that this problem was solved by the employer sanctions written into the Immigration Reform and Control Act of 1986. Even casual observers, however, realize that at most sanctions have only moderated the influx of illegals,

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not stopped it. Finally, Fallows, like most enthusiasts for immigration, pays no attention whatsoever to other arenas in which immigrants and blacks may compete economically—for example, in the housing market.

Even if Fallows were correct in saying that the negative effects of immigration on blacks are minimal, survey data typically reveal that blacks themselves are not convinced. And at some point, black perceptions of the effects of immigration must be taken as political, if not economic, facts. Nowhere does Fallows mention the decade-long record of violence between blacks and Hispanics in Miami. Nor does he have anything to say about the political competition between blacks and the steadily increasing number of Hispanics, particularly as we approach redistricting.

Moreover, such tensions are only exacerbated by affirmative action. Having granted Hispanics, and Asians, the same extraordinary benefits that we afford blacks, we now find the relatively stable black population pitted against growing immigrant communities. Blacks in Southern California have certainly begun to realize this, yet Fallows has nothing to say about it.

Indeed, it is astonishing that a book asserting that America's unique virtue is its "belief that everyone is playing by the same set of rules" never even mentions affirmative action. Fallows rightly laments the racial discrimination that historically subjected blacks to a different set of rules. Yet not once does he acknowledge the fact that affirmative action (whether one approves of it or not) also constitutes a major departure from the rules.

TO BE SURE, Fallows recognizes some of the problems that result from the present influx of immigrants: "The main resistance to immigration at the moment is not economic but cultural." Yet his characterization of that resistance as "fear of the other," like his use of the words "ethnic, racial, and emotional," indicates that in this instance "cultural" really means psychological. Fallows admits no rational basis for concerns about cultural coherence, given today's context of language rights, bilingual education, and multiculturalism—all topics that he scarcely mentions.

In essence, Fallows argues that if the present influx is to work out successfully, then we Americans must acknowledge and live up to our unique history by tolerating diversity. Thus he once again abandons his emphasis on individual choice by choosing to view immigrants as passive victims of intolerance. Completely, and conveniently, overlooked is the irony that, in this antitraditional society, immigrants themselves are frequently the main source of

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both traditionalism and intolerance—clinging to both as they struggle to cope with drastic change.

One has only to think back to the 1989 events in the Bensonhurst section of Brooklyn, where the son of Italian immigrants, himself the bearer of an Italian passport, was charged with the murder of a black youth who ventured into his "urban village." It would not be difficult to envision a similar scenario in Los Angeles, with a black youth appearing at the wrong time in a Mexican neighborhood.

Immigrants play a central role in what Fallows refers to as "the reopening of America." Yet aside from dismissing the notion that they compete against blacks, Fallows has virtually nothing to say about Hispanics—the largest and fastest growing immigrant group. Indeed, as his focus on the Nguyen family indicates, when Fallows talks about immigrants, he tends to have Asians in mind.

It is ironic that Fallows's defense of American individualism depends in no small measure on Asian immigrants, who typically arrive here not only with some education and resources, but also with strong family and group values of a sort that most definitely teach them, in Fallows's formulation, "to know their place." Indeed, it is arguable that Asian immigrants thrive in contemporary America precisely because their group values render them resistant to mainstream tendencies deemphasizing or even denigrating achievement. In any event, Asians certainly perform well in our credential-oriented meritocratic system, which Fallows describes, with some irony, as "Confucian."

Similarly, he ignores the significant differences between Asian and Hispanic immigrants. Like Asians, Hispanics also have strong family values. Yet with less education and less urban or cosmopolitan backgrounds, they have a more difficult time making it in America. Hispanics certainly experience greater tension between family loyalty and individual achievement than do Asians. And the preponderance of Hispanics among illegal immigrants will further complicate the group's efforts to assimilate.

WHILE MANY of these disagreements with James Fallows reflect my disaffection with his liberalism, when it comes to immigration my criticisms could also be directed against conservatives who share his enthusiasm for the present influx. Although they start from different assumptions, Fallows and pro-immigration conservatives share many of the same blind spots.

For example, both Fallows and conservatives tend to focus on Asian successes, while ignoring problems evident not only among Hispanics, but also among Asians—such as gang activity and wel-

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fare dependency among Vietnamese in California. And like Fallows, conservatives underplay or completely ignore tensions between blacks and immigrants, whether Asian or Hispanic. Finally, while conservatives vehemently oppose affirmative action, like Fallows they ignore the ways in which two decades of such policies have shaped the political behavior of Asian and especially Hispanic immigrants, both of whom now qualify for affirmative-action benefits.

Similarly, Fallows and conservatives share a preoccupation with values and culture that leads them to ignore the enormous institutional changes that this nation has experienced since it last faced a comparable wave of immigrants. As his subtitle, "Making American Great Again," suggests, Fallows does sense a change for the worse. Indeed, he laments the demise of the public school system and the pre-Vietnam War draft, which he depicts as institutions that "encouraged the sense that most Americans were part of a single, broad common culture."

Yet he never squares his nostalgia with his condemnation of the effect of the schools and the army on South Chicago's residents. Nor, with his static view of culture, does he consider that the decline of such institutions owes much to the recrudescence of the individualism that he regards as an unqualified virtue. He does not come to terms with the fact that the America he admires—the strong, united nation brought together by World War II or the exuberant, confident society of his postwar childhood—was one in which those "unwieldy institutions," where people were "taught to know their place," played an important, if not dominant, role. Thus, to the extent that he acknowledges such institutional change, Fallows neither understands its cultural origins nor faces up to its implications for his argument.

Conservatives, on the other hand, are concerned precisely with the changes in values that Fallows ignores. Indeed, conservatives welcome today's immigrants precisely because they regard their "traditional values" as reinforcing threatened notions of respect for family, religion, and hard work.

BUT ARE SUCH values, however admirable in and of themselves, enough to sustain the healthy adaptation of immigrants in today's America—much less to reform the rest of us? Our history suggests that poor and uneducated immigrants have generally done best when their traditional values, and the intense primary-group ties in which they are embedded, encounter strong mediating institutions. Yet today such institutions are greatly weakened or virtually extinct, especially in the heavily impacted

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Southwest. Judging by the significant defections of Hispanic immigrants to Protestant fundamentalist sects, even the Catholic Church is functioning less effectively as a mediating institution than it once did.

Our political system has similarly changed. Gone are the ad hoc, informal ways that big-city politicians used to insinuate themselves into the warp and woof of immigrant communities. Today's politics is not only more professionalized, it is also less corrupt. But the world of media consultants, campaign-finance lawyers, and polling experts is that much further removed from the life of today's immigrants. Without the institutional means of bridging the widened gap between the face-to-face relationships that predominate in immigrant communities and the formalized procedures and bureaucratic structures of the political system, it has become more difficult for immigrants to organize for political ends.

The resulting vacuum will not go unfilled, however. Aside from protest efforts, the obvious, and most prevalent, response has been affirmative-action programs—either to increase employment or to encourage voting. Unlike machine politics, though, such programs do nothing to mediate between ethnic-group ties and larger organizational goals. Indeed, affirmative action rigidifies and institutionalizes ethnic (or racial) ties and identity. Moreover, it does so on the basis of group rights.

Without the institutional supports enjoyed by earlier immigrants, how will today's newcomers bridge the gap between their family-centered folkways and the formalized, bureaucratized structures of contemporary American society? It is curious that conservatives, so attuned to the societal developments contributing to the demise of mediating institutions, have not themselves posed this question. This oversight can be traced to the demands of post-1960s polemics. Particularly in the public-policy debate, the liberal assault on cultural explanations of social problems has led conservatives to insist all the more strenuously on the importance of values. Chief among these have been "family values," which have gradually become a surrogate for an array of favored conservative cultural themes. Family values came to the fore as an obvious response to the individualist and liberationist tendencies of contemporary liberalism, but also as common ground on which traditionalist, communitarian, libertarian, populist, and free-market conservatives could all stand together.

This consensus around conservative values found its purest expression in the romance of the entrepreneurial family. Indeed, the image of a hard-working immigrant family running a restaurant reassured traditionalist and communitarian conservatives,

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while gratifying libertarians and free-marketeers who instinctively saw in such efforts an alternative to the more typical paths of immigrant economic advancement—through trade unions and politics.

Yet as an implicit model guiding immigration policy, the entrepreneurial family is misleading; most immigrants will not be entrepreneurs. To assume otherwise is to explain away the economic and cultural reality of day-to-day life in immigrant communities, at least as presently constituted. But even when immigrant families do succeed in establishing businesses, their efforts are not always consistent with the mobility of individual family members. A telling example arises in a recent book about the renowned East Los Angeles calculus teacher, Jaime Escalante. In *Escalante: The Best Teacher in America*, Jay Mathews relates the story of Leticia Rodriguez, the third of seven children of a couple who met in Mexico, came to the United States as cooks, and eventually started their own small restaurant west of downtown Los Angeles—an apparent American success story. Yet when Leticia's trigonometry interfered with her responsibilities at the family's restaurant, her parents decided that she had to drop Escalante's demanding class. It was only after Escalante visited the restaurant and made noises about child-labor laws that the parents relented.

WHAT CONSERVATIVES have lost sight of is that family values are perhaps a necessary, but certainly not a sufficient, condition for a healthy society. The point was made cogently by Edward Banfield in *The Moral Basis of a Backward Society*. Writing of life in a peasant village in Southern Italy in the 1950s, Banfield coined the term "amoral familism" to depict a milieu in which bonds of reciprocity and trust did not extend beyond nuclear families and, hence, in which there was little or no sense of the public good.

When he turned his attention to politics in American cities, Banfield identified similar, though not identical, tendencies in the "private-regarding" values of immigrant voters. But unlike Southern Italy, where, among other factors, the remote institutions of a highly centralized political system offered few arenas in which the narrow bonds of family could be broadened, the decentralized structure of American politics provided many such opportunities. In many cases, the result was literally the corruption of the political process. Yet at the same time the horizons of European peasants were expanded beyond the confines of family and village, and new attachments to the wider society, however imperfect, were forged. Indeed, where strong machines developed, newly formed

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neighborhood and ethnic ties were used to build a city-wide organization to which many different ethnic and interest groups adhered.

This brief analysis underscores not only that family values do not by themselves adequately predict immigrant success, but also that values generally must be examined in the institutional context within which they are guides to action. Today's immigrants display many of the same values that characterized their predecessors, but the institutional means of reorienting these values toward those of the wider society have been transformed.

Moreover, the foregoing discussion indicates that elites of very different persuasions are using immigration to reassure themselves that America is still vital in this period of enormous and unsettling change. One can hear the implicit refrain with regard to the assimilation of all these newcomers: "We've done it before, and we can do it again."

But the American public is not so sure, and its understandable anxieties and questions about the largest immigrant wave since the record high levels at the turn of the century are largely ignored by the elites—or attended to by nativists and demagogues. The irony here is that the questions most often asked are easily, and affirmatively, answered. For the available evidence indicates that, yes, these immigrants will learn English, listen to heavy-metal music, and follow the Dodgers: in sum, they will become typical Americans. This doesn't mean there won't be problems and tensions, but by and large there is every reason to believe—assuming no drastic downturn in the economy or increase in present levels of immigration—that these immigrants will "assimilate" as others have before them.

The critical question, though, is not whether but how—on what terms—these immigrants will assimilate. They will be good consumers. But will they be equally good producers? They will learn English. But will they also demand, as some already have, special rights for Spanish? They will be loyal Americans. But will they see themselves as individual citizens, or as members of ethnically or racially defined claimant groups?

These are the questions that immigration advocates have yet to address. In one way or another, they all subscribe to James Fallows's view that immigrants will help us to find ourselves—to be "more like us." The problem is that "us" is a large and multifaceted nation with changing values and institutions. Immigration proponents must recognize this and take a more clear-eyed look at the fit between what immigrants bring to us and what we have to sustain them. The recently enacted legislation designed to encourage immigrants with marketable skills indicates that one

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part of this process is underway. Now it is time to take up the other part, by considering the effects that dramatic changes in our culture, and especially our political institutions, will have on the manner in which record numbers of newcomers become part of American society. It is true that "to make America great again," we must maintain the spirit of competitive individualism. But if our history is any guide, we must remember that individualism leads to greatness only when it is nurtured—and tempered—by the appropriate institutions.

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Small is Beautiful

BEN WILDAVSKY

ELSEWHERE in this issue William Tucker explains how municipal housing regulations limit the supply of low-cost housing. His thesis is supported by the instructive experiences of San Francisco architect Donald MacDonald, who is trying to provide such housing.

MacDonald is a man who thinks small. He has won awards and provoked controversy for designing and building houses far tinier than the typical new American home, which grew from an average 1,500 square feet in 1970 to 2,035 square feet in 1989. His latest attempt to apply architectural ingenuity to building low-cost housing is a one-room, one-level "starter home" that measures just fourteen feet by seventeen feet, with a built-in sleeping loft.

MacDonald's starter home is cheap. He initially dubbed it a "Sears House," after the prefabricated houses Sears sold in great numbers earlier this century. He estimates that it could be built for between $15,000 and $20,000 (including labor but excluding land). MacDonald says that he could sell the house for about $80,000 in a seedy-but-gentrifying area like San Francisco's South of Market district. That would put mortgage payments at $700 to $800 per month—an attractive price designed to make owning a small home compare favorably with renting or buying in San Francisco's tight, highly regulated housing market; by contrast, new studio condominiums measuring 500 to 750 square feet are selling for $100,000 to $150,000 in the same neighborhood, according to local realtors.

Where size is concerned, of course, the buyer must beware. Although the starter home was designed with expandability in mind, it measures only 298 square feet. Made with inexpensive wood framing, sliding doors, nail-on windows, sheetrock interior walls, and a painted plywood exterior, the structure is more like a studio apartment than a house. The kitchen and the appliance area fit along one wall, with a closet and bathroom along the other. The kitchen sink is the only one in the house. Among the techniques used to combat cabin fever are a pitched roof (which makes a sixteen-foot ceiling possible), two skylights, and mirrored doors, giving the illusion of space. The basic plan for the house includes a

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yard and parking space. As the name suggests and as MacDonald stresses, the starter home is meant for first-time buyers.

The small houses that MacDonald has built so far in San Francisco are larger and pricier than his starter home. They average around 800 square feet and cost about $160,000. Though still a bargain by local standards, they are not to everyone's taste. Architecture critic John Pastier sniffs in *Architecture* magazine that one of MacDonald's small units "would be fine for a houseboat or vacation home, but ... leaves much to be desired as a permanent city residence." Pastier complains that the bathrooms often "lack what many consider an indispensable element of civilized existence—a tub."

Nevertheless, MacDonald's designs have earned him a reputation for affordable innovation. He has been called an "architect for the proletariat" and compared to Howard Roark, the iron-willed architect of Ayn Rand's *The Fountainhead*. In this vein, one writer for the *San Francisco Examiner* described his housing philosophy as a combination of "traditional bleeding-heart liberalism and fervently individualistic Reaganian conservatism."

MACDONALD'S WORK can be seen as one answer to a question raised by Charles Murray in his 1988 book *In Pursuit: Of Happiness and Good Government*. Murray suggests that policy planners need not create solutions to social problems from scratch, but instead should ask why institutions and industries that should be thriving are not. In the case of housing, he writes, "[t]he task is to understand why an economic system that pours out a profusion of cheap-but-decent shoes, food, clothes, and every other basic of life is prevented from pouring out a profusion of cheap-but-decent apartments for rent." The practical and philosophical obstacles faced by MacDonald in his attempts to build cheap-but-decent housing speak to Murray's point.

"There are millions of people being knocked out of the market," said MacDonald in a recent interview at his offices. "And that doesn't have to be, because the technology's so fantastic we can deliver a house for peanuts." The culprits in his eyes include complex and restrictive building regulations, for starters. Housing codes often specify minimum room sizes and sometimes require a minimum lot size for homes. (His starter home just barely complies with the Uniform Building Code—and only when the sleeping loft is officially classified as a storage area.) Thanks to union influence, one local regulation for years mandated metal tubing for electrical wires where inexpensive plastic would do.

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MacDonald reserves special scorn for another cost-raiser: "NIMBY's"—people whose response to new housing, especially of the lower-cost variety, is "not in my backyard." Fierce local opposition often stalls projects or stops them entirely. San Francisco's NIMBY's are usually highly educated and wealthy, according to MacDonald: "They're very rarely the poor people or the middle class." One local community group forced him to put Victorian-style false fronts on the sides of a San Francisco project, adding about $4,500 to the cost of each unit; he dismissively calls this victory for the aesthetics police "a political facade."

No-growth advocates' devotion to their property values, he says, leads them to "use every method to slow the process down." He told *San Francisco Focus* magazine: "What we hear is, 'we want affordable housing,' but there's not one damn soul in this city I know who will stand and go to bat for it." Instead, he complains, the NIMBY's have mastered the politics of exclusion: "They're constantly harassing the city staff, they check our documents, they challenge on every point—they won't let anything happen."

A third factor inhibiting affordability is philosophical; the zeal to provide good housing for the poor effectively prices them out of the market. MacDonald discovered this a few years ago when he presented one of his small-house designs to the San Francisco agency responsible for low- and moderate-income housing. The results were not encouraging. "It fell on deaf ears," MacDonald explained to a National Public Radio reporter. These officials wanted to help the poor, but in a problematic way: "The attitude of the staff architects was that poor people should live in the same sort of space as rich people."

MacDonald sees this egalitarian attitude toward space as ultimately destructive; unrealistically high standards mean that housing never gets built. In a paper called "Home Sweet Home: The Fading American Dream," he wrote: "We have developed a mythology of space—a middle-class mythology. The result is that a great many people have no space at all." Elaborating on the point, he says that "there have to be different levels of housing. A lot of people need space that they can afford—and it's not a conventional house." This consumer-oriented view of housing goes down well with Don Terner, president of the Bay Area's non-profit Bridge Housing Corporation, who told the *San Francisco Examiner*: "Right now the [home-ownership] ladder is structured in a way that the first rung is above your head.... I think creative people like MacDonald are doing the best they can to lower it."

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BUREAUCRATIC sensibilities about the needs of the disadvantaged can harm their intended beneficiaries. In September 1990, Mother Teresa's Missionaries of Charity decided not to follow through with their plan to turn two abandoned New York City buildings into a homeless shelter. City officials wanted them to install an elevator for the disabled that would have added $50,000 to the projected $500,000 in renovation costs. The nuns of the Calcutta-based order preferred to save the money, saying that they would carry disabled residents up the stairs if necessary. Said Ann Emerman, director of the Mayor's Office for People with Disabilities, "We have different ideas here of personal dignity."

Notwithstanding some elements of his rhetoric, MacDonald is no Reaganite. Though he claims to be apolitical, he explicitly links Reagan-era conservatism to the NIMBY syndrome (and, somewhat improbably, to the rise of another bugaboo: postmodernism in architecture). But true to free-market form, he waxes indignant about the regulations and people who thwart the kinds of projects needed to make housing more affordable.

Controversy sometimes swirls around MacDonald for good cause: he designed a makeshift homeless shelter (eight feet long, four feet wide, and four feet high) called a "city sleeper," which one Bay Area resident not unreasonably likened to a doghouse; and MacDonald's confidence in its ability to alleviate homelessness seems naive. On balance, though, he is on the right track. Moreover, MacDonald is gaining support: in down-to-earth Oakland, where NIMBYism, though a factor, has not yet reached San Francisco levels, the *Tribune* recently editorialized in favor of several pending MacDonald projects, including a few starter homes. MacDonald says that he has a long waiting list of would-be buyers. They may be suffering from false consciousness, of course; but they seem to know what they like.

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